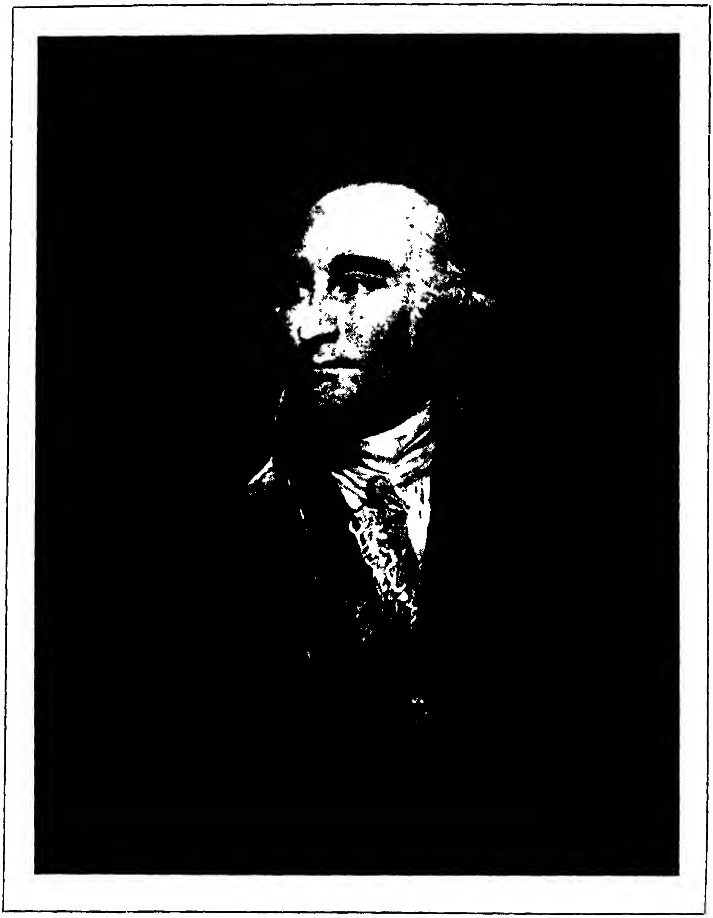
THE ONE POUND NOTE



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THE
ONE POUND NOTE

IN THE HISTORY OF BANKING IN GREAT BRITAIN

BY

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SECOND EDITION

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TO THE

Members and Associates

OF THE

INSTITUTE OF BANKERS IN SCOTLAND

This Volume

IS RESPECTFULLY DEDICATED

PREFACE TO THE SECOND EDITION

A SECOND EDITION of this work is issued in response to many requests, the original edition of 1886 having been long out of print. Several chapters have been partially rewritten, and the historical portions are continued to date. As formerly, the book consists of two sections, relating respectively to Scotland and England. In the first, the leading events of Scottish banking history are noticed so far as they were connected with ONE POUND NOTES. These events are not always given chronologically, the author desiring to follow the course of certain movements to their issue, rather than present a mere chronicle of facts. Thus the period 1727-1770 occupies three chapters, which, though parallel in date, each deal with separate characteristic banking movements of the time. This section ends with chapters on the Scottish law of bank notes, and their manufacture. In the second division, an attempt is made to prove, by an historical examination of English banking, that the reasons for the southern antipathy to such a currency are no longer cogent, and that its introduction to England would strengthen the banking system and benefit national interests. Some photo-lithographs of old notes are inserted to illustrate the Scottish section, which by the simplicity of their workmanship strengthen the argument on forgery in the English chapter.

The writer has pleasure in again thanking those Banks which have permitted the reproduction of their notes, and also of tendering his acknowledgments to those who have furnished information or otherwise aided the completion of the work.

WILLIAM GRAHAM.

7 BRUNTSFIELD CRESCENT,
EDINBURGH, *March* 1911.

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THE ONE POUND NOTE

CHAPTER I

1695-1727

INTRODUCTION—CONDITION OF SCOTLAND—RISE OF THE BANK OF SCOTLAND, AND ISSUE OF ONE POUND NOTES—THE TROUBLES OF 1704 AND 1715—THE EQUIVALENT COMPANY.

"Far in the distant hills of bygone days—
Like some small spring amid the silence round
Which wakens into green the barren ground,
Ere stumbling down the vale it takes its ways.
Then side to side its errant current sways
Thro' vale and mead with ever-rising sound
As rill and runlet swell its deep'ning bound,
Until in great dame Nature's plan it plays
Its part ordained ; and regulated still,
It drives the flying wheel or busy mill.
So Commerce springs in tiny rills at best,
But onward flowing grows apace, until
There float upon its free and ample breast,
With fruits of distant climes abundant drest,
The merchant ships of many a foreign State,
Outpouring on the wharves their world-collected freight."

Saint Mennan's Chronicle.

A HISTORY of the Scottish banking system, in its widest extension, is an evidence of the power of the one pound note. By its means the Scottish banks have so adapted themselves to the wants of the country, and so essential an element has it been of their banking system, that in depicting its career it is impossible to dissociate it from

the history of the system of which it forms a part. What its place in the future of Scotland may be, whether its usefulness will extend further with the nation's growth, or whether it will be superseded by other agencies, time will shew, but it is not without a due appreciation of its past service that our ancestors have written so much on this national instrument of credit.

Unfortunately much of what has been written has little historic value. There is no work which pretends to give the history of the one pound note: a modern student has to grope his way through the fragments of the past, picking up a fact here and there, and arranging them in order as he may. When done, such a history must necessarily be insufficient, since, in the scattered references to notes during a long period, it is sometimes impossible to distinguish between "large" and "small," or ascertain to which denomination certain effects have to be traced.

The adaptability of such notes to England is a subject for which there is abundant data. Banking in that country has undergone such material changes since Lord Liverpool abolished the one pound note in 1826, that the time seems not far distant when they may come within the range of "practical politics," and again resume their place as a factor in English currency.

As the seventeenth century merges into the eighteenth, many eminent names appear in the financial history of Britain. Setting aside several, such as Newton and Locke, whose economic writings are now only known from the fame attending their researches into other branches of knowledge, two men, both Scotsmen, stand opposed to each other, prominent—*facile princeps*—as leaders in the financial movements of the time. Both were men of splendid ability and untiring energy; and being gifted with an agreeable exterior, they were readily recognised as authorities on all things economic. They equally possessed high imaginative powers, and their use or misuse of these faculties well illustrate the fundamental

difference in their characters. William Paterson's prescience became a guiding star through all his misfortunes, yet never led to questionable means for attainment of the great ends in view. John Law's vision could equally bridge the years of labour and effort, and view the triumphant success which might crown his ideas, but he lacked the patience of true greatness, and sought to reap his harvest before the soil was broken for the seed. The essential difference between Law and Paterson has in other times accounted for many financial disasters since their day, and has for bankers a peculiar interest. Law's business career was marked, notwithstanding much that was admirable, by the same lack of morality which clouded his reputation as a man, and though he cannot be accused of enriching himself at the public expense, he was unscrupulous in his adoption of means or method. He and his great rival were fair examples of their parties and age; and their life-history might be summed up in the determination of Paterson to pay gold on demand for all obligations, and in the wild optimism of Law, coining into notes the profits of the Mississippi Valley for a century in perspective. The energy of the promoter merely increased the magnitude of the ruin.

Paterson possessed a nobility and integrity to which Law was a stranger, and throughout the troublous times of the Darien disaster none could point to any act of its far-sighted originator which was not actuated by right motives, and based on the sound sense which characterised his ideas.

In various pamphlets, and in his "Wednesday Club Dialogues," he advocated a gold standard as the only safe basis for a paper currency; denouncing the land nostrums of Dr Hugh Chamberlain and other writers. The Bank of England was founded upon his proposals in 1694. "His admittance as a bank director has the same significancy to his honour, inasmuch as the wealthier men of London, his colleagues, were at that time by no means of a temper to be guided by a native of Scotland,

unless his intellectual superiority was well attested."[1] He did not long remain a director, but he had scarcely left when the bank's troubles began, and partly through neglect of Paterson's caution it was compelled to stop payment.

Much has been said against him on account of the disasters of his Darien scheme, disasters for which he was not responsible. But for England's mistake in 1696, Britain might now be owner of the Panama Canal. It is to this man that England chiefly owes the modern "Bank Note." For thirty years prior to 1692, goldsmiths' promissory deposit notes or tickets—written, not printed—circulated in and around London, transferable by endorsation where payable "to order," or by delivery when drawn "to bearer." The common law of England had considered "choses-in-action" (in which bills of exchange and promissory notes were embraced) to be transferable, until Lord Coke threw some doubt on the matter, and finally maintained that no "thing-in-action could be assigned to strangers" — a statement of law which apparently did not include Bills of Exchange, these being excluded by special custom of merchants. After the Restoration, this dictum of Lord Coke had been ignored, but it is evident that there was a feeling of insecurity, for one writer, so early as 1677, advocated the adoption of the continental practice, "making bills (payable to bearer) transferable without a slow and expensive assignation, or even any endorsement." Three years after the date of this discourse, a decision was obtained, declaring promissory notes legally transferable where the granter had drawn them payable to "Bearer." Eleven years passed, and the trade in deposit notes went on, until a goldsmith's note came before Lord Holt and the Court of Queen's Bench, when it was decided that all such writs, being promissory notes and not bills, were illegal, and could not

[1] "A Discourse of the Use and Power of Parliaments, Laws, Courts, etc.," printer and author unknown. See Bannister's "Life of William Paterson."

be assigned or transferred. His lordship declaimed against the obstinacy of merchants who were setting the law of Lombard Street above that of Westminster Hall! This decision was a severe blow to the London bankers and merchants, and a remonstrance was addressed to Parliament, into which Paterson threw himself with characteristic vigour. He appeared before a Committee of the House of Commons in 1693, and offered to raise money for Government use, by means of his influence with city financiers, on condition that Government should sanction their "Bills payable in Coin on demand" being made transferable to bearer without endorsement, contrary to Lord Holt's decision.

In course of time mercantile custom ignored the statutory requirement of endorsation, and in 1704, by Act 3 & 4 Anne, c. 8, English promissory notes were accorded the same rights as bills of exchange. In 1875, as the result of the researches of Mr Henry Dunning Macleod, the decisions of Lord Holt and his *confrères* were pronounced by the Lord Chief-Justice to be a "blot on our judicial history, and the Court unanimously reversed and annulled them." Paterson did his part in procuring that statutory relief which was supposed to be required. The institution he founded first issued printed notes or orders in Britain; but it is to Scotland we have to look for the first adaptation of the banker's promissory note to the service of the common people. Unlike England, the right at common law to pass notes payable to the bearer on demand without assignation or endorsement had never been questioned; the Scots Law being like that of France founded directly on the Roman Code, which permitted any Creditor to transfer or assign a debt without the Debtor's sanction, the transferee or Assignee having a right to sue in his own name.

Before entering upon the historical part of the subject, it may be well to glance back a few years, at the condition of the country at that time.

The accession of James VI. of Scotland to the throne

of England (1603) was an event of vital importance for both countries. For a time, however, it was difficult for Scotland to see anything in the good fortune of its king but misfortune for his ancient kingdom. The expenditure of the Court, with that of the nobles and gentry, was transferred from Edinburgh to London, where heavy expenses compelled mortgage of many estates in the far North; disputes arose between the two countries as to customs regulations; offices of state, which had supported numbers of the gentry for generations, were abolished; and the very peace which ensued between nations that had not known peace for 300 years, threw out of employment crowds of youthful spirits who had been trained to make war their trade. With such changes in a small and very poor country, trade languished, and many sought employment abroad, in commerce, or as soldiers of fortune under the powers of the Continent. In the wars that followed, it was not uncommon for Scot to meet Scot at the pike's point; and the story is told of a brigade, storming up the steep side of a redoubt, being hailed in their mother-tongue from the walls above, "Come on, loons; this is not like gallanting in the High Street of Edinburgh!" As years went by, the wanderers returned with their pockets full of gold, and their minds enlarged by travel and intercourse with the merchants of the Continent. Much of the old antipathy died out in the Civil War, and at last the revolt against the folly of James VII. enabled both countries to make an unanimous choice of William of Orange as their king. A new generation arose that knew of the old warfare as a tradition only. For a time the Scottish spirit was furiously roused by the Massacre of Glencoe and the failure of the Darien scheme, but the effects were temporary; the collapse of old Mr Melancholy in 1715 and his gallant son's defeat in 1745 proving that the old hate had passed away, leaving a residuum of irritation which shows itself occasionally to the present time. Much credit has been given to the "Union," for the prosperous condition to which Scotland has since risen. Its chief and inestimable

benefit lay in the peace that ensued, and in this the North of England equally shared. The "debateable land" on both sides of the Border may date its prosperity from the Union. Middlesex, Wessex, and the South Midlands were the England of long ago; the North was a region of insurrection and alarm. The treaty of 1707 changed this entirely, and by introducing a profound peace, gave alike provision for industry, and that security necessary for its continuance.

However, all this was yet to come, for the closing days of the seventeenth century were still hard and cruel. The idea of "Banking" arouses such feelings of security and modernity that it is not easy to conceive as possible within the "Banking Era" such a scene as Mr Chambers narrates in his "Domestic Annals of Scotland." It is the 10th June 1697. On the Gallows Green of Paisley, surrounded by an expectant crowd, stands a gallows, with five women below it; close by blazes a huge fire. A sixth victim had evaded their fate by suicide in his cell that morning. Those six, after long and careful trial, with my Lord Advocate Sir James Steuart as Crown Prosecutor, had been condemned to death for bewitching a young girl, Christian Shaw of Bargarran, and with many pious ejaculations the five women were hanged there in the face of the sun. Cut down in a few minutes, they were mercilessly burned in the great fire. Just seven months earlier, in December 1696, in cultured Edinburgh, a boy, Thomas Aikenhead, was executed for some idle blasphemies, withdrawn and abjured even before his trial; *inter alia*, he referred to the Old Testament as "Ezra's Fables." Lord Anstruther approached the Privy Council for the lad, and was told mercy could not be granted *unless the ministers would intercede*, but, "The ministers out of a pious though I think ignorant zeal preached for cutting him off." Two ministers did intercede, nevertheless, but in vain, and the unfortunate lad, "assisted in his last moments" by several ministers, was led to the Gallowlea between Edinburgh and Leith and there hanged. Modern ideas of "Ezra's

Fables" might lead half a General Assembly to accompany a new Aikenhead as fellow-sufferers to the gallows. Christian Shaw's story had a sequel. She had a pair of clever hands, and about 1722 invented a method of *spinning linen sewing-thread from flax of so fine a quality that the great ladies of Bath were captivated*; "Bargarran Sewing Threed," known far and wide, commanding a good price. The manufacture was carried on in Bargarran by Lady Bargarran, and in Johnstone by Christian herself, now Mrs Miller, wife of the minister of Kilmaurs. Newspaper advertisements told how the "Threed" could be got "in Edinburgh at John Seton, Merchant, his shop in the Parliament Close." The trade ultimately settled in Paisley, and was revolutionised when cotton displaced flax. Few who now look on the million whirling spindles of Paisley will connect the world-famous house of Coats with that grim scene on the Gallows Green, two centuries ago, in the beginning of the Banking Era!

The banking system of Scotland owes much to the neglect with which English statesmen treated it in its infancy. North Britain was deemed to be little improved from the days when the Romans "turned back with contempt from gloomy hills, assailed by the winter tempest."[1] The language of the great historian fairly indicates the opinion Englishmen had of Scotland, even so late as his day. Scottish pride and poverty were proverbial; England cared not to stir up the one, and had nothing to gain from the other. Rebellion in Ireland, wars of the Spanish succession, and Jacobite plots at home gave Dutch William and his successors such ample employment as effectually prevented interference with Scottish commerce.

In Edinburgh's pre-banking days monetary facilities were granted by the Goldsmiths and Merchants. In Edinburgh the booths of the former clustered around St Giles Church, where the famous George Heriot had his shop, and the father of Law of Lauriston made the fortune

[1] Gibbon's "Decline and Fall of the Roman Empire."

his son spent. The Goldsmiths' Hall at the north-west corner of Parliament Close (now Square) still survives in Sir David Wilkie's well-known painting. The Merchants had their habitat around the Cross, and declined to move to the better shelter of an Exchange built for them in the Square in the year 1685. In the same year there was erected, also in the Square, the statue to Charles II., whose horse still tramples on the grave of John Knox! Possibly such vicinity to the man who robbed the London Merchants, was too much for the Edinburgh Chamber of Commerce. These two classes, the Goldsmiths and Merchants, took care of money or valuables deposited, granted loans, discounted bills, and dealt in inland and foreign exchange, *i.e.* granting or paying bills issued in payment of accounts for internal or foreign trade. Loans against heritable estate were then, as now, chiefly in the hands of the legal profession.

Notwithstanding the general depression caused by the period of scarcity (1693-1699) called "King William's seven years of famine,"[1] a general feeling of activity and hopefulness sprang up towards the close of the seventeenth century, in singular contrast to the listless despair that settled down upon Edinburgh for nearly forty years after the collapse of the Darien Expedition and the completion of the Union. It was an age of new ideas. The long half-century of disaster and distress caused by the Civil War and the religious persecutions of the Stuarts, was over, and both nations seemed ready to renew the mighty youth of Queen Elizabeth's days. An ardent desire for liberty from the shackles which had so long fettered trade animated all parties, and not even in the days of Cobden and Bright was a "free trade" so exultantly spoken of and sung.

Bannister's "Life of William Paterson" (Edinburgh, 1858) contains the following piece of poetical economics written about 1697, in the enthusiasm of the Darien

[1] "The harvests were so bad that some parishes in Aberdeenshire became depopulated, through the people fleeing to Ireland." Mr Boase's "Century of Banking in Dundee," p. 9.

scheme, which endeavours to illustrate the superior freedom of the Scots law prior to the Union :—

"Scotland was like to thrive ; 'twas very plain
They'd got a law, and could that law maintain,
A law that set all sorts of trading free ;
No land a wiser law did ever see ;
No mighty power it needs, no fertile lands,
No gold, no silver mines, it *all* commands ;
All that our nature needs or can desire,
All that for pride or pleasure we require,
Free trade will give, or teach us how to use,
Instruct us what to take and what refuse."

Thus safe in her poverty, Scotland began her first bank. It was the day of small things. The stamp duties which at a later date were remitted to London by John Coutts's house, amounted for the first year after the Union to £800. The excise and customs for the year 1708 produced a net revenue of £34,898 against England's £2,289,161—the "Mercantile System" and smuggling effectually combining to reduce trade and revenue alike. For a history of the early days of the Bank of Scotland, we are indebted to the author of a scarce work, published in February 1728, "An Historical Account of the Establishment, Progress, and State of the Bank of Scotland, and of several attempts that have been made against it, and the several Interruptions and Inconveniences the Company has encountered," supposed to have been written by a son of John Holland, the originator of the bank.[1] The author speaks with familiarity of private meetings of the bank authorities, and states their views with vigour and frankness. The pamphlet was published in the first year of the Royal Bank's existence, with the view of proving the old bank's superior claims to public support. The Bank of Scotland was founded in 1695,[2] under an "Act of Parlia-

[1] A copy is preserved in the Library of the Writers to the Signet, Edinburgh.

[2] The bank's first accountant was George Watson, the founder of the Hospital in Edinburgh which long bore his name, now George Watson's College.

ment for Erecting A Bank in Scotland," dated the 17th July of that year, whereby there was allowed "a joynt stock amounting to the sum of twelve hundred thousand pounds money" Scots, equal to £100,000 sterling; the total number of shareholders was not to be less than sixty, nor more than twelve hundred; two-thirds of the whole stock to be held by persons residing in Scotland. Contrasted with the English legislation of 1708, this may afford some idea of the numbers of partners the Scots Parliament deemed necessary for a joint-stock company. There are three clauses which have a bearing on our subject, and one of these is somewhat indirect. It is as follows:—"And for the better Encouragement of the said Company and Adventurers, It is hereby statute that the Joynt Stock of the said Bank continuing in Money shall be free from all publick burden to be imposed upon Money for the space of 21 years after the date hereof: and that during this space it shall not be leasom [lawful] to any other persons to enter into and set up a distinct Company of Bank within this Kingdom, besides these persons allenarly [alone] in whose Favours this Act is granted." In this clause may be traced the hand of John Holland, London merchant, who drafted the original Act, and whose name, with those of six merchants in London, all bearing Scottish names, and five in Edinburgh, appears on the list of adventurers.

Amongst the London promoters was Thomas Coutts, uncle of Provost John Coutts of Edinburgh, to be referred to hereafter. Imbued as these gentlemen would be with current protective theories, it was natural that they should seek to protect the new Scots bank, as had been done in the previous year for the Bank of England. Fortunately for Scotland, no renewal of the privilege was sought for at the termination of the period in 1716; and, probably, little harm was done by the restriction, as the Royal Bank did not begin business until 1727, eleven years after the monopoly had expired. If, however, the Bank of Scotland had succeeded in maintaining a monopoly of banking,

similar to that enjoyed by the Bank of England, the same results would have been exhibited in the North as in the South; an absence of national joint-stock banks powerful enough to withstand the shocks of financial crises; and in their place a crowd of small private bankers, unknown beyond the locality in which they dwelt. To this extent, therefore, the lapse of restrictive legislation in 1716 aided in creating that confidence which is yet accorded to the note issue of Scotland. The dangers of no restriction will appear further on.

The only infringement of the bank's rights during the years of the monopoly was made by the Darien Company, then more commonly known as the African Company, which began banking as a means of recovering what it had lost in its colonisation scheme. National sympathy was with that company, or doubtless they would not have ventured on ground forbidden by a special Act of Parliament. Reckless trading, advancing notes on bonds and discounts, brought their career to a close in 1698, to the relief of the Bank of Scotland, who had not cared to "quarrel with that mighty company."

Another clause, which cannot be too highly commended, saved the bank from many dangers by prohibiting it from employing its funds in any trade or business except that of banking.

The third clause referred to, maintained the right of summary diligence for payment of notes, which then, more than now, bore the character simply of mercantile bills or promissory notes. This vigorous remedy had only recently been introduced—primarily for foreign bills, under Act of 16th September 1681, c. 20, Charles II., but afterwards extended so as to include inland bills, by 1696, c. 36, King William. It has been most effectual in assisting merchants and bankers in Scotland to "getting their own again" during two hundred years. The clause runs: "And siclike is hereby declared that Summar Execution by Horning shall proceed upon Bills or Ticquets upon or granted by . . . the said Bank, and the Managers and

Administrators thereof for the time." The word "Ticquets" used here might embrace various writs, as the word "voucher" does now, but it was also in common use amongst economists and lawyers of the eighteenth century to imply any paper token for money, and in its present connection may be freely translated as the "bank notes" of a later age. The stern measure of "Summar Execution" was apparently inserted to prevent the new bank from imagining that its promissory notes could not be enforced against it as speedily as the acceptances of any private merchant; and, also probably for the purpose of strengthening its note issue in the estimation of the public, who would naturally be more ready to accept paper, for which they had such a prompt and powerful means of converting into money. One instance of the use of the word "Ticquets" may be seen in the Act of 1797, whereby the banks were permitted to grant "Notes, Bills, or Tickets, in the nature of bank notes, payable to the bearer on demand, for any sum whatever under the sum of 20s. sterling." Without this authority, however, the violent dispute which arose between the Bank of Scotland and the Royal Bank places the meaning of "Tickets" beyond dispute, and at the same time shews the disadvantage the old bank worked under, compared with other banks, inasmuch as its "Promises to Pay" were enforceable by summary diligence, while those of no other bank in Scotland were so until 1765.

The subscription lists for the capital were speedily filled up, the Lord High Commissioner, the Marquis of Tweeddale, setting the example by signing first, followed by his son, Lord Yester. Only one-tenth, or £10,000 sterling, of the capital was called up, and for some years a limited business was done, chiefly in issuing notes. To run out a large issue seems to have been the only idea in bankers' minds at the time, the possibility of banking without a power of issue being something beyond their imagination; and it is curious to observe the confident fearlessness in which the right of issue was then spoken of, for not only

was it widely accepted, but no one appears ever to have questioned either the right or the public advantage following upon it. This sense of security arose from the supposition that a company might safely issue notes to the extent of its uncalled capital, regardless, as in the case of the Bank of Scotland, of the small proportion of paid-up to uncalled funds. This fallacy appears repeatedly in the history of banking disaster during the eighteenth century. That it did not sooner cause serious trouble is probably due to the glad acceptance by the public of any form of respectable currency amid the shameful confusion of the currency of metal. Nor does it become the twentieth century to scoff at the inexperience of the early eighteenth, for it is only recently that our largest investment companies have seen the advantage of altering the custom of the last forty years, by which they deemed it safe to issue debentures to the same extent as the old bank, the amount of their uncalled capital! It took many years of bitter experience to destroy the error which confused solvency with in-solvency, and deemed a deferred convertibility as safe in banking as payment on demand.

John Holland, the founder of the bank, writes of his visit to Edinburgh at this time: "They [*i.e.* the Scots] generously ordered a noble present to be made to my wife, more than my charge amounted to; and though they were utter strangers to a bank, and all the time I was there the Bank of England could not pay their bills, and although we had many enemies, we obtained, in about two months' time, a strange Credit upon our bills" [*i.e.* notes]. Some consideration therefore of the total inexperience in banking science, with the want of mercantile facilities, leads to the charitable conclusion, that notwithstanding mistakes made at various times, the foundation of the Scottish banking edifice was then laid, in the main, solidly and well.

As no deposits were taken by the bank, its business was exclusively confined to lending its capital, and issuing notes of £100, £50, £20, £10, £5. After the African

Company had closed its "bankeering career," the bank, desirous of preventing the establishment of a rival, and hoping to "carry the circulation of their notes through the greater Part of the Kingdom," created four offices on 9th April 1696, "to wit, Glasgow, Aberdeen, Dundee, and Montrose," their chief hope lying in the profit anticipated from the increase in their issues by their inland exchange business. In this they were disappointed; trade seems to have been bad, little business was done, heavy charges incurred, and accordingly the directors, finding how "unsafe, troublesome, and improper" the exchange trade was, closed the branches, and brought their money "to Edinburgh by Horse Carriage," at no little expense. Dundee branch was the last to close, on 6th October 1698. Their rules of doing business at this time were, to lend "Money upon Bond, both heritable and personal; also upon Bill at short usance by way of Discompt, for a month or two, under certain regulations . . . alterable as the Company found convenient."

The issue of a small paper currency was something so entirely novel and experimental, that the author of the "Historical Account" speaks of it with much modesty, not to say dubiety. For a few years no attempt was made to circulate notes of a smaller amount than £5. The greater wealth of England might enable it to be content with this as its lowest denomination—though we are not aware that any private firm then issued such notes, and the Bank of England certainly did not do so for nearly a century—but the poverty of Scotland, and its sore need of small coin, required a medium of less bulk, and capable of meeting the smaller transactions of the nation. The author of the "Historical Account" states that to meet this want the Bank of Scotland issued their first 20s. notes in 1699. It has been alleged that these were 20s. Scots money, and therefore only equal to 1s. 8d. sterling; and that the issue of £12 Scots in 1704 was the first issue of £1 sterling notes. The authorities of the Bank of Scotland at the present time give 7th April 1704 as the correct

date; on the other hand, the author of the "Account" pointedly mentions, just before he details the burning of the bank in February 1700, that in January 1699[1] notes were issued of the value of twenty shillings, for the express purpose of making the "circulation of bank notes more extensive and easy, even in small sums. They were found to be very convenient, not only in the country, but also in the City of Edinburgh, though scarce any hopes were entertained that they can obtain a currency to any considerable value in our public markets and fairs, . . . for nothing answers there among the common people but silver money, even gold being little known amongst them."

Mr Kinnear, one of the bank's directors in 1826, stated in evidence before the parliamentary enquiry of that year: "Previous to 1704 the directors and proprietors of the Bank of Scotland had received several proposals for the issue of 'Tickets,' 'Stamped Brass Coins,' or 'Wooden Tallies,' for remedying the want of a circulating medium of coin below £5 in value. The proposals were all rejected by the proprietors. They were probably conscious of their want of experience, and refrained for a time from so novel an experiment. . . . In 1704, however, the measure was again brought forward, and £1 notes were issued for the first time."

Although these notes were styled £1 notes in the bank's books, they seem to have borne the equivalent in the national currency £12 Scots for many years after Scots money was abolished in 1707.

Annexed is a copy of one of these £12 Scots notes, dated 1716, the original of which is kindly lent by the

[1] This interesting question was recently set at rest by a letter from Mr Barbour, the bank's accountant, published in the appendix to Mr A. W. Kerr's "History of Banking in Scotland," second edition, 1902, where, after examination of the bank's minute-books, the writer states 1704 to be the correct date. Writing as Mr Holland did nearly twenty years after the event, and only from the recollections of his father, it is probable that he confused the consideration of his father's proposals in 1699 with their realisation in 1704.

Bank of Scotland for illustration. This is the earliest Scottish bank note known to be in existence. It is a genuine note, and its simple form indicates the easy task forgers had in dealing with these early notes. It was probably printed on one of the old-fashioned tailledouce (Fr. copper-plate) printing-presses then used for printing engravings. The printing may have been Scottish workmanship, though the earlier notes were printed in London, and the paper probably came from France or the Netherlands. The note is signed by Mr David Drummond as treasurer, a stanch Jacobite according to his enemies' report, but a "gentleman of primitive virtue and singular probity," according to his friend Thomas Ruddiman. Mr Drummond died in 1741, after serving the bank for forty years. See *Banker's Magazine*, September 1891, for an interesting article on the Old Bank, on the occasion of its bicentenary, by Mr James Macbeth Forbes.

The bank's first office was on the second flat of Paterson's Land, a tenement in Parliament Close behind St Giles Church; from this they were burnt out by the great fire of 3rd February 1700, when Lord Leven, with a party of soldiers, was on duty all night keeping clear the bank stair and passage, while books, notes, and cash were hurriedly removed to a place of safety.

In a letter to his brother on the fire, Forbes of Culloden says: "Ther are burnt, betwixt 3 and 400 familys; all the pryde of Eden^r is sunk; from the Cowgate to the High Street all is burnt, and hardly one stone left upon another. The Commissioner, President of the Parl^t President of the Session, the Bank, most of the Lords, &c., were all burnt, and many good and great familys. It's said just now that ther is more rent burnt in this fyre than the whole City of Glasgow will amount to. Ther was neither heart nor hand left for saving from the fyre, nor a drop of water in the Cisternes; twenty thousand hands flitting their trash they know not wher, and hardly 20 at work. These babells of ten and fourteen story high, are down to the ground, and ther fall's very

terrible. Many rueful spectacles, such as Corserig[1] naked, with a child under his oxter, happing for his lyffe. The Lord is angry with us, and I see no intercessor."

The bank's next office was further up the High Street, at the foot of a blind alley called after Sir Thomas Hope, King's Advocate to Charles I., but sometimes also called Mauchan's Close. During the next hundred years it was known as the Auld Bank Close. In his "Traditions of Edinburgh" Dr Robert Chambers gives some interesting details of the bank, which crossed and shut in the foot of the close, having on its west side the house of Robert Gourlay, where Regent Morton and King James VI. once lodged. The whole range of buildings was demolished about 1830, to make room for Melbourne Place and George IV. Bridge. An arrangement of wires was then discovered in the bank connecting the window-shutters with a mechanism in the garret, which rang a bell suspended outside. In the same close Chiesly of Dalry murdered Lord President Lockhart in 1689.

Scarcely had this disaster of the fire passed over, when the bank had their first experience of trouble with their notes, a man, Thomas Macghie, having altered a £5 note to £50. Before much mischief was done the crime was detected, and the "rogue was forced to fly abroad." New copper-plates were engraved of all the bank's notes in different characters, which, it was fondly hoped, would put it out of the "power of man to renew Macghie's villainy." In 1710 another "unfortunate," named Robert Fleming, "a very poor man," a teacher in Hamilton, was arrested, and condemned to death, for imposing on some simple people a number of 20s. notes, all written by himself, and having "a dark impression made like the seal of the Bank." In gracious contrast to the brutal code of later days, Queen Anne granted a reprieve several times, until

[1] Corserig, Sir David Hume of Crossrig, one of the Lords of Session, had a wooden leg, doubtless laid aside on going to bed that dark February night. No time to refasten it with the flames at his door; had to "hap" for his "lyffe" as above. A worthy man left a diary, published by F. G. Stevenson, from which above is taken.

after her decease he received a remission of his sentence. In January 1723 a third forgery was detected, although the criminal was never discovered: on this occasion the 20s. notes were those practised upon. Again, in November 1726, another forgery of the same notes took place, on account of which John Currie, a bookbinder, was arrested, and confessed the crime, having attempted to imitate the watermark of the 20s. notes. Various tools and utensils were found in his house, affording additional proof of guilt. In endeavouring to trace the culprit, the bank, by warrant of the Lord Justice-Clerk, searched every engraver's office in Edinburgh, besides the premises of those who had tailledouce printing-presses in and about the city; but without success until, on Sabbath evening, the 25th December, the secretary of the bank learned that a bit of paper had been picked up in the workshop of the man Currie, by his servant, on which were printed in characters similar to those on the bank notes, the words, "Bank of Scotland." The notes were again called in, and new designs prepared, "with special cheques against forgery."

The further progress of the bank has little cognate to our subject until 1704, when an issue of £1 notes appeared under the denomination of £12 Scots. Small as the bank's transactions had been hitherto, the issue of these notes was a vast public benefit, the old metallic currency being then quite insufficient for everyday necessities. At the "Union" the Bank of Scotland took charge of withdrawal of the old coin, when it was called in to be recoined, and the total of the silver so received amounted to £411,117. 10s. 9d. sterling, of which only £239,036 was Scots coin.[1] So far as is known, no account was kept of

[1] From Thomas Ruddiman's Preface to Anderson's "Diplomata, &c., Scotiæ" we quote:—

Foreign silver money, sterling . .	£132,080	17	0
Milled Scottish coin . . .	96,856	13	9
Coins struck by hammer, prior to 1673	142,180	0	0
English milled coin . . .	40,000	0	0
	£411,117	10	9

the gold received; but from records of the Scottish Mint, between 1602 and 1613, Mr Ruddiman supposed the annual quantity coined must have slightly exceeded the value of the silver. Adding these items, and calculating the amount which must have remained in the hands of the people, the total metallic currency of Scotland has been variously estimated at from £800,000 to £1,000,000.

This is obviously an overestimate, as the gold coined bears no proportion to the sum in circulation on a given date. Gold coins would be melted down in large quantities for trade export in preference to the worn and debased silver coins, so that the total metallic currency was more likely to be £500,000 than £800,000. Both Defoe (who was in Edinburgh at the time of the Union) and the writer of the bank's history record the fact that "no Scots gold coins were current or to be seen, except a few preserved for antiquity." After the Union for a time the revenue was remitted to London in gold coin—"broad pieces"—Lord Leven taking charge of the first payment of £20,000, retaining £1000 as his fee! which was allowed—a practice which would soon clear the gold out of the country.

The smallness of this amount, at a time when there was only one bank office in a country with one million inhabitants, when metal—one-half silver—had to do nearly the whole work now done by cheques, drafts, bills, and demand orders, and at a time when paper money was almost unknown, is self-evident, and must have seriously retarded the growth of trade. Sir Wm. Forbes mentions that, in looking over the books of Provost Coutts even so late as 1740, he "saw many notices of the difficulty at that time of effecting money transactions of any considerable extent, in the county towns of Scotland."

It is curious that in the same year in which the bank first issued its £12 Scots notes, it should have stopped payment. So far as can be traced—for our author is singularly reticent as to this "stoppage"—there does not seem to have been any connection between the two events.

What effect the small notes had in this crisis, or how many one pound holders "ran" with their neighbours, will probably never be known, until the treasures of the Bank of Scotland's vaults are opened to the light of day.

In accordance with the theory then prevalent, that land was the basis of all credit, the bank had locked up too much of its funds in advances on heritable securities and bonds; the remainder being chiefly lent upon bills of exchange, leaving too small a sum as cash on hand. Further, the class of bills then current was very different from the mercantile bill of this century. For many years after 1704 the bill proper was a bill of exchange, *i.e.* a remittance bill, equivalent to the modern draft now drawn payable on demand, but then at a currency varying with the distance between the two places of issue and payment. Naturally such bills formed only a small item of the banking asset headed "Inland Bills" in the bank's balance-sheet (*see* page 25). Apart from this use the average bill of 1704 was a mere "wind instrument," or at best a rude cash credit bond whose actual payment was in no way dependent on the date of its maturity. In bulk, therefore, such investments were no better than advances on heritable bond so far as rapid realisation was concerned. It is further on record that the bank at an early period of its history was accustomed to discount bills free of recourse against the endorser who sold the bill, the bank looking solely to the drawer, acceptor, or such endorsers as were prior to their own seller. This may account for the six, eight, and ten per cent. charges made for discount on bills, but, as Mr William Forbes remarks, it was a "mighty encouragement to persons to negotiate their bills in the bank."[1] This practice still exists on the Continent. The bank had no deposits, and therefore did not require to maintain a large reserve on that account. Its whole indebtedness to the public thus consisted of the amount of the notes issued. The total sum of these was said to

[1] "A Methodical Treatise concerning Bills of Exchange." William Forbes, Advocate, Professor of Law in the University of Glasgow, 1718.

be trifling, until the bank began to receive deposits, at 1707; yet, trifling as it was compared with figures of modern times, the bank, in their endeavour to use all their money to the best advantage, may have failed to keep up a proper coin reserve. By a coincidence, the country's resources were severely taxed at that time to meet Government requirements for the continental wars. Gibraltar had been captured and the Battle of Blenheim won, in the summer. Coin was scarce even in London, and a rumour got abroad that it was proposed to increase the nominal value of the coinage. Such a measure had been publicly discussed in England in 1694, amidst the distress of the silver recoinage, in a paper by Chancellor of Exchequer Lowndes. A run began upon the bank, which compelled it to close its doors on 18th December 1704. It was the first reading of the lesson which since then has been so often read in vain. The total absence of such institutions as now hold for the banks "money at call," reduced the assets available as a reserve to the single article of silver bullion; and when the stock ran low, bankers of the eighteenth century had a better excuse than their modern brethren for hesitating before bringing a new supply from London. Then, it was no case of stepping leisurely into a comfortable "Pullman" at the "Waverley," to wake next morning "'mid the roar of London town," at a total cost for the expedition of 2s. per cent. The very language of travel is changed. They "set out" where we "start"; they "performed the journey in a week"; we "do it" in nine hours. The traveller to London two hundred years ago was accustomed to prepare his will before setting out, and bid farewell to the friends whom he might never see again. The weary journey to and fro, with the time spent in searching for the specie in London, usually occupied the best part of fifteen days, and cost on the small sums of gold coin then available for purchase, any figure up to £7 and £8 per cent.—a contrast to 2s. So late as 1734, the *Caledonian Mercury* announced that "a coach will set out towards the end of the week for

London, to be performed in nine days, or three days sooner than any other coach that travels, for which purpose 80 stout horses are stationed at proper distances." It was promised that "gentlemen and ladies" would be conveyed "to their entire satisfaction."

In a print published by the bank, entitled, "Memorial and Intimation from the Governor and Company of the Bank of Scotland, concerning the present state thereof," dated 28th December 1704, the bank states that the causes of the run were—"The scarcity of money all over the kingdom, which has gradually increased by a tract of export of money for some time past; and a report that the Privy Council was to cry up the value of species, raised about the beginning of December instant, which, though it was wholly groundless, and without any shadow of reason, yet being industriously spread, and kept up by some persons, occasioned a very great, unexpected, and unaccustomed demand upon the bank, which at last had such effect, that on Monday, the 18th of the instant December, the money in the bank was wholly exhausted, and thereby payments stopt."

In his "Money and Trade Considered," John Law of Lauriston, speaking of this event, says—"The stop of payments which happened to the Bank of Scotland was foreseen, and might have been prevented. The consumption of foreign goods [*i.e.* in Scotland presumably] and expence in England, being more than the export of goods [from Scotland] did pay; the balance sent out in money lessened the credit of the Bank; for as credit is voluntary, it depends on the quantity of money in the country, and increases or decreases with it. Coining notes of one pound supported the bank, by furnishing paper for small payments, and thereby preventing a part of the demand for money: by these notes the bank might have kept its credit till other methods had been taken to supply the country with money, had not a report of raising the money occasioned an extraordinary demand, which in few days exhausted the money in bank and put a stop to payments."

Cotemporary records seem to shew that the bullion then kept by the bank was almost wholly *silver*, one writer remarking, "that y^e Bank has specie (*i.e.*) silver money for a ¼ or ⅛ pairt of y^e value of y^e Notes out; if y^e demand is greater y^n y^e specie in Bank, y^e Bank fails"[1] —which it did in the case under notice. Their 20s. notes, and the £12 Scots notes, were necessarily payable in silver, as no gold pieces of these amounts existed.

The character of the silver had also taken its part in bringing on the crisis. If the currency of England had been bad, that of Scotland was even more deficient from a difference in standard. The author of a cotemporary circular remarks that "according to our standard an ounce of bullion is worth 5s. 6d. sterling, and according to that of England only 5s. 2d. Thus a hundred pounds of money is worth about our £106. 10s. sterling; but in respect we put a higher estimate upon all foreign money than our own, most of it, specially the new coin, has found a way to go out of the kingdom."[2]

In view of such a state of things, much sympathy should be felt for the early struggles of the old bank; it lived in troublous times, politically and financially; it was working out a wholly new experiment, and surrounded as it was by the land bank and land credit delusions of the time, the wonder is that upon the whole it behaved so prudently and well. Silver might be obtained from London at great cost, but it was only safe so long as it remained in the bank's vaults; once in the hands of the public, there was little chance of it coming back, and the whole labour had to be repeated, with its attendant expense.

An examination was made of the bank's books and papers by the Marquis of Tweeddale, and other members of the Privy Council, to consider "the sufficiency of security to the nation for all the bank notes running, and

[1] MS. pamphlet by Mr Patrick Campbell of Monzie, upon a Land Bank, 1708.

[2] "The Crying Down of the Money considered," circular, 1704.

to take such course as in their wisdom they should think fit for the satisfaction of those who might have bank notes in their hands." The examination was held the day following the stoppage, when it was found that the bank's assets exceeded its liabilities by about one-fourth. In the balance-sheet placed before the committee of inspection [1]

Bank of Scotland

1704.						*Debit.*		
Dec. 19th.	To Bank Bills charged upon the Treasurer p. accot. in Ledge. d. fol. 3 .	£146,735	0	0				
	Deduct for so much thereof in the Treasurer's hands at this day . .	95,888	0	0				
	Remains nett of Bills running throughout Kingdom					£50,847	0	0
	Ballance due to the Adventurers .					12,352	0	$8\frac{1}{6}$
	Summa . .					£63,199	0	$8\frac{1}{6}$

of Scotland

1704.		*Credit.*		
Dec. 19.	By Cash in the Treasurer's hands, remayning in old Merks	£1,600	0	0
	" Debts due upon Heritable Bond, per particular a/c, besides interest thereon	21,968	6	8
	" Debts due upon movl. bond p. particulars, besides running interest as above	27,682	8	$5\frac{1}{2}$
	" Inland Bills due thereby p. particular list besides running interest . . .	11,253	16	8
	" The Bank office, for the first coast of their house besides al reparations .	694	8	$10\frac{2}{3}$
	Summa . .	£63,199	0	$8\frac{1}{6}$

[1] See copy above, from Mr Wenley's "Historical Development of Banking in Scotland," 1892.

the amount of their outstanding debts is £50,847, consisting solely of notes, a fact which shews most strikingly how completely the note issue was looked to as the prime means of carrying on a banking business. The statement exhibits banking principles and practice in their crudest form. To meet notes of £50,000 only £1600 of old silver remained, the great bulk of their other assets being quite inconvertible. A modern bank granting advances on heritable and movable bonds to the extent of three-fourths of its liabilities, would be simply courting failure, and we have to thank the old bank for giving the first proof of the danger of such a course. One good item is the "first coast" of their banking-house, which with "al reparations" costs only £694.

At the adventurers' meeting held on the 27th of December, it was agreed that the company's notes should bear annual rent from the 18th instant to the 18th of April following; power being given to the directors to postpone the resumption of cash payments for two months if necessary. A call of £10,000 was made upon the partners, and it may be a sign of the bank's evident sense of security that the call was not made payable until Whitsunday, or a month after the date fixed for repaying the notes.

From this date on to 1726 little can be gathered from cotemporary history bearing directly upon the bank, except that in 1707, deposits were first openly accepted. Lord Crossrig (he who "happed for his lyffe" at the fire) mentions that in 1699 he had an "interest in the Bank of £3000 Scots, whereof in cash I have in it·£300." This cash was probably a deposit even at that early date.

Possibly the hope of attracting a portion of the money due to Scotland in respect of the Treaty of Union, concluded in that year, induced the bank to take this step for the purpose of having a larger fund to work upon. Their profit would necessarily be large, since no interest was allowed on the deposits. This, as it turned out, was a short-sighted policy, for the largest beneficiary in the Union payments (which amounted to £398,085. 10s.) was

the African and India Company of Scotland, the bank's early rival. If, as may be supposed from so patriotic an institution as the Bank of Scotland, its directors objected to the Treaty, this would account at once for the bank's unpopularity with the Hanoverian party in 1715, and for the malignity with which it was attacked some years later by the Whigs of the Equivalent Company, who, after the failure of their negotiations for a union of capitals with the old bank in 1719, suspected its endeavours to get control, in some way, of the fund in their hands, which afterwards formed the capital of the Royal Bank of Scotland.

The Jacobite *fama* was strongly denied by the bank, who resented the suggestion as an insult; probably any dislike the bank might have to the Union would arise from that event having been pressed on by the African Company in the hope of recovering its lost capital. William Paterson was strongly in favour of the Union; and, strange to say, he had no great opinion of the bank, having written about it in 1695, to the Lord Provost of Edinburgh, that it "may be a great prejudice (to the African Company), but is never like to do any matter of good to us nor to those who have it."

Several attempts were made to share in the bank's profits, though only two of them came before Parliament. The first was that of the famous Dr Hugh Chamberlain, who—styled Chamberland—unsuccessfully petitioned the Scots Parliament to erect a land bank in 1700. The other was that of John Law. In an overture to the Scots Parliament, dated in 1705, he proposed the foundation of a land bank, in which notes were to be issued based on the security of land instead of bullion! and "that forty Commissioners, appointed by Parliament, should coin notes to be received in payment when offered." The scheme gave rise to considerable discussion in the House, but was finally rejected, with the remark that an "issue of paper or bills, without an obligation to pay coin, was not consistent with the welfare of Scotland"—a statement which all the economic science of the nineteenth century could not

improve. Speaking of the old bank, Law says, "Its Notes went for four or five times the value of Cash in Bank, and that so much as the amount of their Notes exceeded the amount of Cash in Bank was a clear addition to the money of that nation." Besides, he adds, it was "more national or general than either the Bank of England or that of Amsterdam, because its Notes pass in most payments throughout the whole country, whereas the Bank of Amsterdam serves only for that one city, and that of England is of little use but in London." "Many of the Notes were so low as Twenty Shillings." *It is observable here that Law accounts for the bank's popularity solely by the circulation of its notes—a characteristic piece of reasoning from the Mississippi schemer.*

Another project was mooted by Mr John Campbell of Monzie. In an elaborate pamphlet, dated 1708, he works out a project for a land bank, or a "Land Mint," as he calls it, in which there is so much sound sense on some points, that it is difficult to see how he could have gone so far astray on others. In addition to the notes proposed to be issued against land, he argued for an issue of £1,000,000 in notes, against which the same amount of gold would be kept for change. Freedom of inspection and audit by members of Parliament were amongst the sensible parts of his programme, and no dividend to be made account of but out of profits. Admitting that his project might appear to be an encroachment on the monopoly granted to the Bank of Scotland, Mr Campbell tries to prove that there would be really no encroachment, as the two banks would be essentially different. "Y^e^ Bank-notes are a credite upon silver pledged, y^e^ Notes of y^e^ Land Bank are a credite upon land pledged; y^e^ bank pays in silver, y^e^ land mint pays in land. Y^e^ bank has specie (*i.e.*) Silver money for a ¼ or ⅓ pairt of y^e^ value of y^e^ Notes out; if y^e^ demande is greater y^n^ y^e^ specie in bank, the bank fails. Y^e^ land mint has specie (*i.e.*) land equal to the Notes out, and a million more to make good a year's deficiency, so y^t^ to all appearance y Land Mint will not fail." Mr

Campbell apparently could get none to help him, and contented himself with placing his document amongst the archives of the Advocates' Library, where it still lies. The modern student cannot but observe the numerous schemes then current similar in nature to Law's and Campbell's. Crude as they were, they indicate as a whole the general sense of the vital need for a better and larger currency to meet the slowly advancing commerce of the times.

The bank was again compelled to stop payment by a "run" for coin, caused by the Rebellion of 1715. On this occasion withdrawal of deposits and £30,000 Government money which was lodged in the Castle for safety, had a marked effect in shortening the time during which the drain was endured. In the first stoppage, when notes only had to be met, three weeks elapsed before the bank was seriously affected. In the second, they had to close their doors in eleven days,[1] and remain so for nearly four months; their notes again being called in during May, June, and July following, to be paid by a new issue, with interest from the date of stoppage. It has been stated that the directors privately encouraged the run, lest the money might fall into the hands of the enemy.

Three separate proposals for extension were made between 1719 and 1727, all of which were declined. The first was on behalf of the Scots Equivalent Company, the representative of the African and India (or Darien) Company, whose claims on the Government had been met by a delivery of £248,550 value of debentures, on which £10,000 of interest was paid annually, as an EQUIVALENT for the shareholders' losses. From this word, originally used at the Union of 1707 for a sum of money paid by England to Scotland, the new company took its name of the Equivalent Company, soon to be exchanged for that of the Royal Bank of Scotland. The proposals of this powerful rival were handed to the bank in December 1719, without any name attached, by one describing him-

[1] Arnot's "History of Edinburgh," 1788.

self as "A Gentleman of Distinction, a well-wisher of his country and of the Bank of Scotland." It was suggested *to join the £250,000 of Equivalent Company's debenture bills to the bank's subscription of £100,000, making a* total capital of £350,000, Of the profits, the Equivalent Company were to get five-sevenths and the old bank two-sevenths. But as the whole of the debentures were paid up, while only a tenth of the bank's capital was so, it was hoped that the latter would see its way to repay the Equivalent Company £225,000, or nine-tenths of the total amount, with other arrangements as to interest. Sheltering themselves behind the actuarial absurdities of the proposal, the bank declined the opportunity of running out "£225,000 in bank notes" on such terms, and returned a civil answer in writing to the "Gentleman of Distinction," who by this time was known. On receiving the bank's deputation, the "Gentleman" was so angry at the refusal of his offer, that his interruptions prevented the "answer in writing" being handed to him. So far as it dealt with details of the scheme, the directors' reply was able and acute on all points; but the defect in the old bank's apology was that they exhibited no desire to meet the company in any way—a slight which was remembered when 1727 came round.

The second proposal came in 1720 from a less creditable source and at a questionable time, in the very crisis of the South Sea Company's fate. "The Edinburgh Society for insuring Houses against loss from Fire" was not, as the reader might innocently suppose, a society for insuring houses against loss from fire, that business having fallen through in the first months of its existence. Being disappointed in their hopes of gain, the society got into bad humour, and, after sundry secret meetings, resolved to make a run on the bank, with the hope of compelling it to shut its doors, when they could set up in its place. A sum of £8400 of the bank's notes was purchased in this foolish design, the treasurers of the Equivalent Company aiding it by withdrawing all their money from the bank in gold,

and lodging it in the Castle. Notwithstanding that the manœuvre ended in failure, the society had the audacity, a short time afterwards, to make proposals for amalgamation, which the Bank of Scotland rejected with more politeness than they deserved. Still another "braw wooer" came in the end of 1721, in the person of Mr James Armour, a writer in Edinburgh, representing the "Royal Exchange Company at London." Upon first consideration of his desires, the bank declined to open negotiations, whereupon Mr Armour, in 1722, published a pamphlet containing an elaborate account of his proposals, addressed to Lord Leven, the bank's governor, and printed with capitals, German text, and Italics sprinkled amongst the Roman characters with a taste peculiarly his own. "The sum of the proposal is this: The Royal Exchange Assurance Company was to send down to the bank £20,000 sterling (in specie), for which the said company were to be entitled to one-half of the whole free profits in the bank, after setting aside £2500 sterling to the bank's proportion." Other proposals were made as to exchange, but these were suspected by the bank to have been inserted only with the view of diverting "the reader from too narrowly examining his main project."

In its dispute with the Equivalent Company, which had many English shareholders, and also with the Royal Exchange Company, the bank had an unhappy way of styling them "Foreigners," and asking, with patriotic indignation, if it were for the nation's advantage that they should borrow money from a foreign country which they could easily get in their own? It was objected by Mr Armour that the bank could not strengthen its position by calling up more capital from its proprietors, as these would pay their calls, not in specie, but in the bank's own notes; to which it was retorted, that the bank's position would be strengthened even by such a payment, inasmuch as its liabilities would be lessened by the amount of the notes paid. The point of receiving £20,000 in gold was evaded, by insinuating that it would not be so paid ultimately, but

would be settled by bills of exchange, or the bank's own notes. Thus this disconsolate lover was compelled to retire like his predecessors, much grieved that his efforts to induce "Jenny to birl her bawbee" had been in vain. Details of these various proposals have been given at some length, as the same features appear prominently in each: first, the desire to share in banking profits; and, second, to increase these profits by a corresponding increase of credit to the public, granted by means of a larger issue of notes; the latter, according to the narrow notions of the time, being the most profitable and extensive way of accommodation. The amount of notes issued bore a much larger proportion to the entire floating paper obligation than it now does, cheques or drafts being only used to draw the notes direct from the bank, and not being handed in payment of accounts, as in later times; so that all accounts, large or small, were settled by bank notes.

While stating these facts, it would be unfair not to admit that the bank had good reasons for declining to increase the scope of its business on the lines proposed, for the most indignant outcry against its position undoubtedly came from those who would have accepted greater facilities to further their private ends in stock-jobbing. The South Sea Bubble burst only in the previous year, 1720, and the speculative spirit was not at rest. Where the bank failed to discover the signs of the times, was in not appreciating the possibility and even the value of other banks to the country. The writer of the historical account boasts that while the bank's subscribed capital was £100,000, they had conducted their business with a paid-up capital at no time exceeding £30,000, while £10,000 had often sufficed for their needs. The paid-up capital remained at £20,000 from 1704 to 1727, when fear of the new bank led to a call for £10,000. On so small a capital they paid substantial dividends, alleged by friends of the Royal Bank to have reached 35, 40, and 50 per cent.! The actual dividends paid had varied from 12 per cent. in 1699 to 6 per cent. in 1706, and in other years to 1712 between 15, 18, and 20 per

cent. In 1713 and for three years, 30 per cent. was paid, falling gradually though not below 10 per cent., until 1726 and 1727, when 22½ per cent. was divided. In 1728 there was 13⅓, then a collapse to 3¾ per cent. in 1729 followed by an average of 5 to 1744, when with a leap the dividend rose to 31¼, dropping for eight years thereafter to 5 per cent. up to 1752. In this experimental stage it is curious to see how little care was given to regularise the rate paid. So contracted a capital could not longer be expected to suffice for the needs of business men, but this the bank was to learn by experience alone. Mr Macleod, in his "Theory and Practice of Banking," quotes Holland's words, "For the quota of credit in a Banking Company must be proportioned to the stock of specie in the nation, learned and understood by long experience," as a proof of the soundness of some of their theories. In the same pamphlet from which he quotes occur the following opinions of the blind prophet of 1727:—"It is impracticable to support and carry on *two Banking Companies in one country.* No nation did ever attempt it. England, where banking is as well known as in any part of the world, did never try it." "No set of Scotsmen, who had the nation's welfare at heart, would ever attempt to disquiet the bank. A proposal for a new bank would never obtain favour in a Scots Parliament." The monopoly of banking lapsed in the year 1716, when the bank did not ask for a renewal, deeming the advent of a rival an impossibility. It was fortunate that the monopoly was not renewed, because, apart from any question of economic principle as to restriction, their entire policy at this time stands out in marked contrast to the manner in which the bank was conducted after 1730, when the competition of the Royal Bank awoke the older institution to the necessity for new ideas. The old bank was working out an experiment during these first twenty years, and it knew the need for caution; but it is evident that during this early period of its history it lacked a more inventive management, which could have enlarged the scope of its business, augmented its

capital, and generally enabled it to afford increased facilities. Trusting, apparently, to the current belief that more than one bank was not safe, they do not seem to have thought of a rival, and, from the want of initiative genius in their councils, plodded on in the old tracks. "If two banks were authorised in England, there would be a constant hustling and interference betwixt them, till one, or probably both, came to ruin." History has proved the incorrectness of their opinion. This limited style of banking clearly could not be tolerated longer, and at last "came the deluge."

Much as that "ill-faured Union" has been reviled, its indirect effects upon Scotland have been great, and not the least of those was produced by the "Equivalent Fund," out of which came to be created the Royal Bank of Scotland. With its establishment in 1727 a new era began. Credit was no longer to run with feeble stream in former narrow channels. Competition, with its good and evil attendants, had begun. New methods of banking were invented, and, when the first flame of jealousy had burned out, the two banks settled down, about 1731, to a work as distinct from that of 1707 as the steam-engine is from the mail-coach. What all this had to do with one pound notes will be presently seen; but, for a few pages, it may be well to review the first years of the new bank, and the warfare that ensued—a warfare all the more interesting, since the weapons of destruction were largely one pound notes.

Should the virulence of the combatants surprise the reader, let him recollect the rudeness of the times. "Torture" had only been abolished in 1708 by gentle Queen Anne. Trial for witchcraft, with its demoralising horrors of burning, was not abolished until 1735, by an Act of George II. The lairds and gentry were fighting an unequal battle with a "dour" and jealous peasantry, who burned, barked, or felled the plantations and fruit-trees with which the former wisely endeavoured to clothe the wastes. Two Acts of Parliament had to be passed, in 1714

and 1719, to stop "divers lewd and disorderly persons" from riotously assembling by day or clandestinely gathering by night to ravage the fences, gates, and enclosures, or tear up, break down, and destroy the trees therein planted! Progress was in the air, but there was need of patience. The "dark age," as the Edinburgh people called it, was not past, but the grass was no longer growing in the High Street of Edinburgh.

CHAPTER II

1727-1760

THE ROYAL BANK—THE CONTEST BETWEEN THE BANKS, AND ITS RESULT—INAUGURATION OF EXCHANGES OF NOTES—THE RISE OF BANKING IN GLASGOW AND ABERDEEN.

Shylock. "Thou call'dst me dog, before thou hadst a cause—
I'll have my bond, I will not hear thee speak—
I'll have my bond, and therefore speak no more."
Merchant of Venice.

THE Equivalent Company, with its name now changed to the more dignified Royal Bank of Scotland, obtained its charter on 31st May 1727; but while in chancery, and before the sign manual of King George I. had been adhibited, his majesty died suddenly at Hanover on 11th June of same year. Some delay took place ere George II. gave the necessary authority, on receiving which, the charter was presented to the Deputy-Keeper of the Great Seal in Scotland on 6th or 7th of July; and regardless of the last effort of the old bank, who lodged a *caveat* against putting on the seal, the charter was returned to the Royal Bank completed on the following day.

To get it passed had been no easy task, and had required all the efforts of its supporters by fair means and possibly otherwise. The old bank learned that the promoters had placed a draft scheme before the Bank of England directors for their approval and patronage.

Banking operations being limited to Scotland, the directors cautiously answered that for the present nothing in it appeared to them prejudicial to the Bank of England. After a vain attempt to obtain a copy of this charter, the old bank lodged a *caveat* against its passage; and after consultation with their "Doers" in London, determined to petition the king, which they did in no gentle terms. Seeing that all their efforts would probably be fruitless, they protected themselves by calling up £10,000 of their capital, raising it to £30,000 paid, and resolving to grant no further loans for a time, they waited in angry impatience the operations of the new bank. Wodrow, in his *Analecta*, iii., 461, writing of 1727, says: "The New Bank is not to be opened for some time, and some say are not to give out money for twelve moneths. The Old Bank are very cautious, and lends out no money now, which has raised a terrible scarcity of money and is a great hindrance to bussiness. Thus, from reall want of money and the clashing interests of our two banks, there never was such a complaint as now for scarcity of money."

The enemies of the old bank and the Equivalent proprietors on their side had not been idle. Rumours about the Bank of Scotland were set afloat. They were accused of disaffection to the Government, a serious matter to the jealous House of Hanover; of sending a "gentleman" to London with £5000 for purposes of bribery; of having too small a capital; of being "far too narrow in extending their loans," and requiring security; of not lending on pledge, nor dealing in exchange, foreign bills, or lending money to their own partners. In short, everything was wrong, and it was impossible that anything could be right so long as the old bank enjoyed a practical monopoly! The Bank of Scotland were shrewd enough to point out, that the Royal Bank having a capital consisting solely of national debt, would have no fund to bank with; but on the publication of the charter it was found that due provision had been made for this, the capital consisting of £111,347. 19s. $10\frac{5}{12}$d.

sterling of Government stock, with 20 per cent. additional as a banking fund, the proceeds of calls on the proprietors.

During the time spent in preparing for the start, a sum of £20,000 was paid to Scotland by Government, to be laid out at interest for improving the fisheries and manufactures. Hearing of this sum, the Bank of Scotland applied for one-half of it, hoping that the Royal Bank would be content with the other half; but they had forgotten that the chairman and a majority of the Trustees and Commissioners of the Board of the Manufactures were all Equivalent proprietors, and the whole sum was deposited with the new bank, when it opened in a close off the High Street.[1] Not content with this preference, the chairman of the Trustees ordered his

[1] The Royal Bank's first office was on the south side of the High Street, in the Ship Tavern Close, but in 1754 they removed to a tenement further west, entering from Steil's Close on the west and from Old Fishmarket Close on the east. The fire of 1824 consumed the whole range of buildings. No close corresponding to Steil's now exists, but the Old Fishmarket or Police Office Close still stands, about 30 feet east of its old line. Steil's Close is shown in Edgar's map of the city, 1765. Mr Robert Chambers, in his "Domestic Annals" writes, under date 7th November 1723, of the assemblies held "in the great hall in Patrick Steil's Close," referring to this in a note as in the "Assembly (latterly Old Assembly) Close," pointing out that an assembly was advertised in 1736 as being held "in their new hall, behind the City Guard," the same as afterwards occupied by the Commercial Bank. It is evident from this that the present Old Assemby Close is a considerable distance east of the first close known by that name. Dr Buchanan, in his "Banking in Glasgow During the Olden Time," speaks of the bank being in St Mennan's Wynd, or Steil's Close, afterwards a police office. He probably got the former name from some old title deeds, as St Mannan's (not St Mennan's) Wynd was almost wholly destroyed in the fire of 1700. This wynd appears in De Wit's Map of the City, 1647, where it is called "St Monan's Wynd" in the Index, but "St Mannan's" in the map. It ran down to the Cowgate from a point about 10 yards east of the present east end of St Giles. The name is probably one of the variants of Monan's name. George Heriot lived in the Old Fishmarket Close. The Royal Bank sold their office there in 1822 to the Edinburgh Police Commissioners for £3500. For many years during their residence there the close was known as "The Royal Bank Close."

underlings to refuse all Bank of Scotland notes offered in payment of "rates or taxes," and to demand gold or Royal Bank notes.

With this year the Bank of Scotland "Defence" ceases, and the concluding words are interesting historically:— "I shall therefore sum up all in one comprehensive Truth —that those of the Royal Bank have exerted the utmost of their Power and Strength, and racked their Wit and Politicks, to bear all hardships on the Bank, to discredit the Company and encumber the circulation of its Notes, with no other view but to occasion a Run upon the Bank; oblige the Directors to make demands on their debtors; create national disasters, and (as they hope) to raise clamour against the Bank—the Royal Bank in the meantime hording up all the specie they can be masters of, without affording any relief to the country under the present great scarcity of money; while the Bank of Scotland stands passive, or rather on the defensive only, trusting to the affection of the country, and for support from the favour of all who have been accommodated by the bank, and found the conveniency and advantage of the circulation of the Company's Credit and Notes in the Nation."

The first notes of the new bank were issued, dated 8th December 1727, apparently in exchange for as much of the Bank of Scotland's paper as could be got for the money—the old bank at once endeavouring to make a similar collection of its rival's notes. The modern exchange clerk might naturally suppose that his occupation then began, as indeed it did in the truest sense; but, nothing was further from the old bank's notions of banking propriety than that its notes should be returned to it in thousands by a rival institution and peaceably paid for, as is done in our enlightened times. In those days it was regarded as an offensive innovation which was not to be tolerated. Unfortunately for the old bank the Royal Bank proved to be more than its match. The new bank was the favourite with the Government, as well as a considerable portion of the Edinburgh people; and, above

all, it had the support of the Glasgow merchants, who hoped to extend their credit by its aid.

It has been alleged that the Royal Bank did not present daily for payment the notes of the old bank collected by it, but wilfully retained them until they reached such a figure as would tax its rival's coin reserves to pay. It is possible that this was done, but too much credence cannot be given to the unsupported complaints of the old bank's historian, for though these complaints have been thoughtlessly adopted by nearly all writers since they were made, and the Royal Bank's conduct ascribed wholly to malice, the reader will not fail to see in this squabble the progenitor of those fights which the two banks, when once agreed "in unity to dwell," had at a later period with the Aberdeen and Glasgow banks on the same question—the retiral of their superfluous notes by the issuing banks. The Bank of Scotland had perhaps a better excuse than its successors, inasmuch as the advent of the the new bank into a field where formerly a monopoly had been enjoyed, introduced circumstances outside previous banking experience. When it stood alone, the old bank's notes in the hands of the public must have circulated more widely than they could after another bank appeared. This would arise not merely from any flow of business from the old to the new house, but from the fact that the old bank's notes floated about the country in the hands of merchants who had no special reason for paying them back into a bank where no interest was paid nor deposits received, and who therefore would continue to use them as cash to be paid away into further circulation. The establishment of a new bank would necessarily and immediately cut into this business, since the new bank's customers would naturally pay into their accounts the old bank's notes which they might not require; or again, all bills collected by the new bank would at first be paid to it in old bank notes, which it was not the interest of the new bank to re-issue, as ordinary merchants would have done. No matter, therefore, how much or little malice

may have actuated the Royal Bank, its action in presenting these notes to the old bank for payment was at once correct in law and economics, and it is extremely interesting to see in this the true initiation, even though *per force*, of that system of note exchange—the mother of the modern clearing-house—which has done so much since then to regularise the notes issues of Scotland and the commerce of the world.

The struggle between the banks went on for three months, the larger circulation of the old bank being steadily reduced as Royal Bank notes took its place. Apparently, as in 1704, the old bank's reserves were insufficient, and their assets not properly realisable, for its resources were gradually drained away, until they were compelled to delay payment of £900 of their notes to a patron of the Royal Bank, Mr Andrew Cochran, Lord Provost of Glasgow, and closed their doors for the second time, on the 27th March 1728.

Mr C. W. Boase, in "A Century of Banking in Dundee," gives a statement of the bank's position as at this date, which is given below.

The Bank, *Debtor* on 27th March 1728.

To Bank Notes formerly called in		£1134	0	0
To Do. running at Interest until called in		70,054	0	0
To two Creditors for Deposited Money		418	0	0
To Sundries		849	12	10$\frac{2}{3}$
To the Publick, the total debt		£72,455	12	10$\frac{2}{3}$
To Adventurers, Free Stock, viz.:				
For $\frac{3}{10}$ of their Capital paid in	£30,000 0 0			
For this year's Free Profits	4466 18 2$\frac{2}{3}$			
		34,466	18	2$\frac{2}{3}$
To the Publick and Adventurers, the total debt		£106,922	11	1$\frac{1}{3}$

The Bank, per Contra *Creditor*.

By heritable and personal bonds with Interest due thereon to this day	£91,343	14
By Inland Bills discounted, besides the interest due thereon not brought to accompt	14,993	11
By Cash in the Treasurer's hands at this day	585	4
By Effects and Credit, the total summa	£106,922	11

The figures are interesting when compared with those of 1704. They are larger; that is all. They indicate no advance in banking principles. Notes outstanding are £71,188 in place of £50,847 in 1704, but the investments are still to a huge proportion quite unrealisable. Two-thirds of the capital and all the notes are sunk in heritable and personal bonds. The lesson of 1704 had been forgotten, and progress in correct ideas was all in the future. At the same time a modern critic has to recall the old bank's difficulties ere allocating blame; for the nineteenth century, accustomed to a plethora of "call" securities or investments, can scarcely realise a bank's position in the early eighteenth, when such facilities did not exist in Scotland, unless in form of unprofitable "hard cash," as "heavy to get" as it was "hard to hold."

Again the Royal Bank evinced a resourceful enlightenment in dealing with the situation. Their motives have been maligned, and their action ascribed to "coolness," "audacity," *et hoc genus omne*. History is more ready to judge the actions than the motives of the past where the latter are matter of supposition and best interpretable in the light of the former. The Royal Bank, *a new and untried institution*, was now the only bank in Scotland, and its hesitation or error at such a time might have caused a calamity to the country. With a courage and foresight which cannot be sufficiently commended, they advertised that for the relief of such people as wanted to go to market they were prepared to pay the twenty shilling notes of the Bank of Scotland in specie. By this timeous notice they assisted the numerous traders and merchants who were holders of the old bank's notes, and set the example so wisely followed by the banks in 1772 with Douglas, Heron, & Company, and in 1878 on the failure of the City of Glasgow Bank, towards all the notes of those banks. The hesitation for a few days in following a similar course in 1857, when the Western Bank failed, was responsible for the panic and "run" of that year. The

old bank's notes seem to have retained their value throughout the country, for the treasurer, Mr Drummond, received a letter from his brother, Drummond of Blair Drummond, dated 26th May 1728, two months after the stoppage, expressing his pleasure at the old bank's strength, and saying that though great pains were taken to raise evil reports as to it, none was willing to part with its notes at a discount.

The story of the legal proceedings which ensued with the Bank of Scotland is well told in the print of the Appeal to the House of Lords in May 1729, by the Royal Bank and Andrew Cochran as *appellants*, against judgments of the Court of Session *versus* the Bank of Scotland, *respondents.*

The appellants' case opens by referring to the Bank of Scotland's perpetual power of banking, and twenty-one years' monopoly. It then says:—"And to give their Notes or Bills the greater credit, and enable them to recover money due to them, they are empowered to sue and may be sued *summarily*—and therefore the said Act [1696] declares, That *Summar Execution by Horning* shall proceed upon *Bills* or *Tickets* drawn upon or granted by, or to, and in favours of the said Bank, and protests thereon in same Manner as is appointed to pass upon Protests of Foreign Bills, by the 20th Act of Parl., 1681, and that no suspension pass of any charge for sums lent by the said Bank, or to the same, but only upon Discharge or Consignation of the sum charged for." At this point the appellants swell forth like the frog in the fable:—"But as the Rules laid down by the Respondents were too narrow, and that it would be of great Service to the Country if Credit were made more extensive — His Majesty was graciously pleased . . . to incorporate the Appellants by the name of The Royal Bank of Scotland, with Power of Banking upon a Fund *much* more extensive, and *more certain* than *That* of the Respondents." The unhappy respondents are then accused of having made a call upon their proprietors, with sundry other offences,

which had the effect of "occasioning such an Interruption *to Credit that they" were obliged to stop payment of their notes; but by an "Advertisement, promised to pay* 5 per cent. Interest till their Notes would be paid." "The Possessors of these Notes finding by this Stop that what had in Commerce been formerly equal to Specie, was become meer Paper, applyed to the Respondents for Payment of their Notes, and upon Refusal, protested against them for Non-payment." Mr Cochran, on being refused payment of the packet before mentioned, went to the Royal Bank, who, at once, as they said, "in order to prevent an entire Stagnation of Credit, advanced the same to him." Thereupon Cochran, grounding upon the Bank Act of 1696, presented a petition for letters of horning[1] against the Bank of Scotland; but the Lord Ordinary, believing that the whole course of action was designed to distress the old bank, instead of at once granting the letters, ordered the petition to be seen and answered by defenders, and afterwards delayed it a few days for the decision of six of the judges. They, in turn, postponed it for nearly three months, and finally refused to pass it on 25th June 1728.

Seeing that summar execution was denied them, the pursuers endeavoured to gain their end by inhibition[2] and arrestment; and accordingly, having brought two actions, one in name of Thomas Peters and Michael Wallace, and the other in their own name, for payment of £10,255 of notes, payable to David Spence or bearer, the appellants, upon depending suits, offered to the Lords bills of inhibition and arrestment. Contrary to usage, these were not at once granted, but were referred to all the judges, 11th July 1728, who, as in the former action by Cochran, "refused to pass the same." An appeal to the whole Court was decided in a similar way on 26th

[1] Horning—where personal arrest might follow failure to pay a debt.

[2] Inhibition prevented sale or burdening a debtor's heritable or real estate.

July, neither horning, inhibition, nor arrestment being held competent against the Bank of Scotland upon their notes, the diligence being done *in emulationem.* Meantime the Bank of Scotland had not been idle. Knowing that further actions would certainly be brought against them, and that letters of horning were "frequently passed of course," they petitioned the Court of Session to withdraw from the Clerks of Court the power of writing upon any such papers until they, the Bank of Scotland, had seen them. This the Lords also granted, and, contrary to all precedent, ordered such bills to be delayed twenty-four hours, in order that the bank might have an opportunity of answering. Immediately after this the principal sum sued for was paid over, being received by the Royal Bank under protest that their acceptance of payment did not affect their right to damages and the costs of their proceedings.

On the 19th February 1729, the Royal Bank, still resolute for its rights, again resumed the attack, requesting the judges to withdraw their previous interlocutors, and find that the Bank of Scotland had no other rights than those common to the "Pursuers, and all others His Majesty's subjects." No notice was taken of this petition, while one put in on 25th February was superseded and delayed till the following June. But there was no rest for the unjust judges of the Court of Session; they might style the petition "disrespectful, indecent, and injurious," as they did, but the Royal Bank was resolved on having its "pound of flesh." The appeal to the House of Lords was accordingly prepared, insisting that as the Bank Act of 1696 gave the right of summary execution to the bank, so it also gave it to others against the bank; to which it was objected by the Bank of Scotland, that notes issued by them as a company were not referred to in the Act, but only bills for money borrowed as private individuals. The Royal replied, "this seems a Distinction without a Difference," and in vigorous terms proceeded to take the old bank's arguments to pieces, concluding thus: "As

the Interlocutors appealed against are not only against the express words of an Act of Parliament, but establish a Privilege in favour of the Respondents different from all other subjects, the Appellants hope that the said Interlocutors shall be reversed, and such other Relief given, as to your Lordships shall seem meet." One of the four names adhibited to the document is that of Duncan Forbes of Culloden, whose statue now adorns the Parliament House in Edinburgh.

The writ for the Bank of Scotland makes the most of a bad case, at the very outset adroitly exhibiting its rival as an upstart institution. In its opening paragraphs the bank tries to show that its notes or tickets could not come under the Summar Diligence Act of 1681, which only applied to bills of exchange, "but not to cash or *promissory notes* payable upon demand"; while there was no provision in the Bank Act of 1696 on this point, because to give a charge of horning upon cash notes "would have entirely defeated the institution of a bank"—how, it does not explain, but endeavours to cover its weakness under protestations of the manner in which "the Company ever since their Erection have executed their trust, with the greatest candor and caution *to the universal satisfaction of this country*, and with the strictest Fidelity and Affection to the present happy Establishment to which they owed their Existence."

Complaint is then made that the Royal Bank (spoken of as "*some* of the Creditors on the Scots Equivalent") "having got a sum of Money into their hands—became possessed of several of the Respondents' notes, and therewith made for some time a continual demand upon the Respondents, which, with the scarcity of Money in the country, brought them under the necessity to stop payment for a little time." (The Bank of Scotland reopened its office on 27th June 1728, two days after the Court of Session decision in its favour, but there is reason to believe that cash payments were not resumed until 14th November of the same year, when the full sums, with interest at 5

per cent., were paid to the parties.) The clause in the Summar Diligence Act of 1681, requiring protest to be recorded within six months of due date of bill, is taken advantage of, it being maintained that the bank notes, *sub judice*, were due several years before they were protested and registered; further, that letters of horning could only be obtained by the person specially named in the bill, or in its endorsement, so that in this case David Spence, the bank's own officer, was the only one who could properly pursue; but apart from these grounds it was insisted that it was neither known nor intended to make bank notes subject to immediate execution. Any hopes the Bank of Scotland had of success were doomed to disappointment. On 1st May 1729, the case came before the House of Lords, who gave the following decision on the 9th:—"It is ordered and adjudged, that the several interlocutory sentences complained of be and are hereby reversed, and it is hereby further ordered, that the Appellants be at liberty to apply to the said Lords of Session to cause their costs and expenses in the proceedings above mentioned to be taxed according to the course of their Court."[1]

There is now no doubt that the House of Lords were right, and the Court of Session were wrong in their view of the case. It may possibly be doing injustice to the Lords of Session to insinuate that they would have a leaning to the old bank, and wish to repress the new Whig Company on political grounds, as well as on account of the malice which prompted its action; but the Royal on their side could urge, that had it not been for the antipathy of the old bank at the outset, the bad feeling which debarred compromise and led to the actions would not have arisen.

It was fortunate that "Bank Notes" were placed thus early on a clearly defined footing as to the steps to be taken for recovery. At the risk of being tedious, the

[1] Reports of cases decided in House of Lords, upon appeal from Scotland, from 1726 to 1757.

account of these proceedings has been given at considerable length, since no subsequent action has ever been raised of so much importance in connection with Scottish bank notes. The right of summary diligence on bank notes is further dealt with in reference to the Act of 1765. As before mentioned, the Bank of Scotland, resumed payment towards the end of 1728, and do not appear to have suffered from the Royal Bank's attacks, until after the decision of the House of Lords, in May of the following year, when the old tactics were resumed; without, however, any more serious result than that of making the directors of the old bank consult as to the safest way of outwitting their opponents by staving off the evil day of payment. Strange as it may seem, payment of specie on demand was the supposed objectionable point in their note issue, as it was even down to recent times, when the writer of a series of letters in the Edinburgh *Courant* declaimed strongly against the absurdity of supposing that notes should be paid in gold! Except the feeble resort to paying in sixpences, the only remedy the directors could think upon was the insertion of the famous "Option Clause" in their notes; and accordingly, "to avoid such distresses in future, the Bank of Scotland, on the 19th November 1730, began to issue £5 Notes, payable to bearer on demand, or £5. 2s. 6d. six months after being presented for payment, in the option of the bank."[1] On 12th December 1732, they began to issue £1 notes with a similar clause, which read as follows:—"The Governour and Company of the Bank of Scotland, constituted by Act of Parliament, do hereby oblige themselves to pay to   or the bearer one pound sterling on demand, or in the option of the Directors one pound and sixpence sterling at the end of six months after the day of demand, and for ascertaining the demand and option of the Directors, the Accomptant and one of the Tellers of the Bank are hereby ordered to mark and sign this note on the back hereof.

"By Order of the Directors."

[1] Arnot's "History of Edinburgh," 1788.

As a temporary expedient this measure was successful, and it is understood that the bank did not again avail itself of the option, although the clause continued in their notes for many years, until the old bank, seeing its own sins repeated in its juniors, learned the value of true solvency, which is ever ready for payment on demand, and abandoned those ideas of a postponed convertibility which had marred its influence for so long.

The lapse of time softened the antipathies of the two banks. Doubtless they learned that notes could be amicably exchanged, and that Scotland was big enough for both; while their mutual troubles during the "1745" must have drawn them further together in the sympathy of a common affliction. Beyond these, however, there were other reasons which must have enlightened the opinions of the old bank as to an inconvertible paper currency, and enabled it cordially to join action with the new. Other and smaller banking firms were growing around them in Edinburgh and the provinces, which began like other juniors to imitate the early vices of their elders, without considering the painfully acquired experience of the latter. In 1749 Messrs Livingston, Mowat, Bremner, and Dingwall opened in Aberdeen the first Scottish provincial bank, as the Banking Company of Aberdeen. Unhappily they held the current ideas that notes could be issued to the extent of the subscribed, though unpaid, capital. A note issue so expanded, rapidly did two things. It displaced the safer currency afforded by the Edinburgh banks then circulating in Aberdeen, for as remittances were constantly required for southern creditors, the Edinburgh notes were most naturally used in that capacity and sent South, their occupation as currency in Aberdeen being taken by the notes of the Aberdeen bank. To this the Edinburgh banks could have no objection on principle, but when the Aberdeen notes began to come South in further use as remittances a trouble arose which the Edinburgh banks were bound to face. These notes were in ordinary course paid in by the Edinburgh merchants to their own banks,

but there was no local agent to retire them on behalf of the issuers. The Edinburgh banks therefore appointed an agent in Aberdeen, to whom they sent their collections of Aberdeen notes for presentation to Livingston & Co. Lack of experience and the continued neglect of the Government to supply coinage appears to have operated in the Granite City, as with the old bank in 1727, until, drained by unlooked-for demands for coin and dragged into a lawsuit for payment of their notes, the Aberdeen bank retired in January 1754. The lawsuit arose on a petition for summary diligence by a holder of Livingstone & Co.'s notes for which payment had not been given on demand. The Court of Session refused the petition on the ground that the Acts authorising summary diligence (those of 1681, c. 20; and 1696, c. 36) granted such a remedy only upon bills, inland or foreign, but not upon promissory notes. The Act of the Bank of Scotland, 1695, granted such diligence solely on notes of that bank, but did not extend to notes of any other bank. It was further pointed out that the notes of the Aberdeen bank being partly printed and partly written, were neither holograph nor legally attested, and were not signed by all the partners. The decision therefore, was, that according to the law of Scotland they were valueless, and should neither have been issued to the public nor accepted by them; one judge remarking that they were "no better securities than a nick-stick," *i.e.* an Exchequer tally in which "nicks" were cut to tell its value.

Promissory notes were not granted the privileges of bills, nor subjected to recovery by summary diligence until 1772, when the Act 12 Geo. III., c. 72, was passed; but such notes issued by bankers were so recoverable by the earlier Act of 1765-8 George III., c. 49. Livingstone's case and similar decisions to be mentioned were disastrous in their moral effects, as they entirely removed the terrors of the law from the issuers of such notes. Granting that the judges were technically correct in their interpretation of the summary diligence clauses of the two old Acts, it

is evident how greatly they needed a Lord Mansfield to widen their ideas on the new writs of commerce. They were probably influenced by the English decisions of Lord Holt in the previous century, who had always opposed granting facilities to the negotiation, or recovery of the goldsmiths' notes.

Unsatisfactory as this decision was, worse was yet to follow, and the two senior banks were destined to have a still more severe fight before the note exchange system could be forced on their neighbours. On this occasion Glasgow was the scene of conflict. In the West the Royal Bank had been the favoured institution, but neither bank had the wisdom to establish a branch there, though often desired to do so by their respective clients. At last, in the end of 1749, the same year in which the Aberdeen bank was begun, the Bank of Scotland seeing the possibility of sharing its rival's western trade, assisted in founding a bank in Glasgow, under the name of the "Ship Bank," managed by Messrs Dunlop, Houston, & Co., afterwards known as the "Old Bank." One of their notes dated in 1753 is still preserved in the Antiquarian Museum at Edinburgh. It bore a vignette of a ship in full sail. From its commencement this bank was prudently managed. Without spreading its operations to any great extent it came safely through many crises, and eventually joined the Glasgow Bank as the Glasgow and Ship Bank in 1836, which in 1843 joined the Union Bank of Scotland. Returning to 1750, the Royal Bank, not wishing to be behind its rival, set up its old friend Provost Andrew Cochran with John Murdoch, under the style of the Glasgow Arms Bank, soon to be known as the "New Bank."

Dr Buchanan, in his "Banking in Glasgow during the Olden Time," says: "The partners whose names appeared in the firm were Provost Andrew Cochran, and his brother-in-law, John Murdoch. The former was an extensive merchant in this city [Glasgow] upwards of half a century—Cochran Street is named after him. Mr Murdoch, like

Mr Cochran, was elected Provost three several times; his town mansion was what is now the Buck's Head Hotel, the oldest edifice extant in Argyle Street, and giving a good idea, altered though it be, of the style of residence of the tobacco lords, who ruled Glasgow in the days of these old banks." The tobacco lords referred to aided greatly in making Glasgow what it now is, and by their extensive corporations and companies had afforded fair banking facilities to the West for many years prior to the establishment of regular banks in that quarter. Indeed, had these wealthy mercantile corporations not existed, the want of banks would have been felt much earlier; so that although the first Glasgow bank only dates from 1749, banking facilities were afforded there for fifty years prior to that date, probably superior to those in Edinburgh. Glasgow is one of the few towns in Scotland tracing its greatest advance to the Union of 1707. That event threw open the American trade to Scotland, which formerly was a monopoly of English merchants, and into this opening the western traders energetically led. The largest trade at first was in the import of tobacco.

Both of the Edinburgh banks granted cash credits to their western friends, who for some time issued Edinburgh notes. Business went on amicably for nearly seven years, and evidently the initiation of an independent note issue was not the cause of quarrel, for both Glasgow banks were issuing notes for some years prior to 1753, while the dispute with Cochran, Murdoch, & Co. became public only in 1758. For their action towards those banks, as with the Aberdeen bank, the Edinburgh institutions have been reviled as "narrow minded" and monopolistic, very much as the Royal Bank has been abused for its policy in 1728. Yet the policy pursued in all three cases was identical with that so much applauded when applied to Douglas, Heron, & Co., the Dundee bank and the Perth Banking Company, and which is now an axiom in daily banking routine: namely, that every bank shall be prepared to retire its own notes when presented to it for payment.

It should be unnecessary to add anything in defence of the Edinburgh banks to what has already been said on the vital necessity for a note exchange. The mere statement of the facts condemns the recalcitrant Glasgow bank without further argument. Deep down underneath all other factors for error lay the long-continued neglect of the metallic currency. This and the absence of a cheque system of payments led to an issue of notes proportionately vastly greater than at present. The absence of bank branches from which drafts could be issued for remittance purposes led to very large quantities of these notes being so used as remittances; passing through the post-office to distant towns in payment of debts. Edinburgh was the common financial centre whither all these notes flowed, and the merchant exchange dealers or traders there who received them paid them into their accounts with the Edinburgh banks, who could scarcely be expected to hold them without presenting them for payment. Strange and impudent delusion as it may seem, however, this was exactly what the issuers of these notes expected them to do.

On first issuing notes early in 1750, Cochran, Murdoch, & Co., and also Dunlop, Houston, & Co. kept an agent in Edinburgh to retire such of their notes as went eastward, but on discovering the heavy drain[1] on their resources thereby involved, they withdrew their agent about 1752, and allowed their notes to accumulate in the hands of the Edinburgh banks. The latter eventually stopped the cash credits of the western banks, and in absence of any proposals from their proteges for the retirement of their notes, both banks agreed to appoint a Glasgow agent, who could collect their west country bills, do other business for them there, and be permanently on the spot to exchange notes. The agent appointed was Mr Archibald Trotter, formerly a partner of Coutts & Co. (then Coutts, Son, & Trotter), and as described by Sir William Forbes, was not either in person or manner likely to command respect. He candidly

[1] See page 134 for similar retirements by Dundee bank at a later period.

describes his appointment and methods in an *Information* for an Appeal which he brought against Murdoch & Co., dated 5th February 1760. It is reported by Lord Woodhall, the Lord Ordinary, who had delayed or refused Trotter's original application: "Mr Trotter was interested as a Proprietor in both the Banks in Edinburgh; he had also agreed to be their Correspondent and undertake the Management of any Business of theirs in the West Country and by this Connexion with the Edinburgh Banks, his Duty and Interest required he should exert himself and promote the Circulation and Credit of their Notes by all honest and fair means.

"To prevent misconception of his purpose he gave a full and Clear Declaration" to each of the Glasgow banks, "and did not disguise his Purpose as to the Circulation of *Edinburgh* Bank Notes"; he further "signified that in the course of his Dealings in Glasgow he would not refuse to accept their Notes for payment, but they were not to expect that he would circulate them again . . . therefore he expected that those *Bank-holders* would give him payment in Edinburgh Notes or specie for such of their notes as should come into his Hands."

Mr Trotter writes more courteously of the Old Ship Bank than of Murdoch's New Bank, referring to the former as "erected by a *few* Gentlemen of *Property*"; but the other, "which is called the New Bank, was not upon the same Footing: the Undertakers were no less than thirty-one in Number, *all of them Traders*, and no one Person who can be said to be a landed Gentleman." He records accordingly that "the Gentlemen of the *Old Banking Co. of Glasgow* rightly considered the Purpose of this Declaration to be fair and unexceptional . . . and Mr Trotter met with good Treatment and ready payment as often as he had occasion to make any Demand of Money for their Notes. But the Partners [not Gentlemen !] of the New Bank, Messieurs Murdoch, Cochran, & Co., acted in a very different manner." Beginning his operations, he received notes of the Glasgow banks from the Edinburgh banks

(making regular journeys to the West, and eventually living there for some years), and presented them, asking payment in gold or Edinburgh notes. A man of Mr Trotter's ability was, however, no match for the partners of the Glasgow Arms Bank; the experience of the Bank of Scotland and the Aberdeen bankers had not been lost to them, and distress sharpened their wits. Accordingly, we find that during thirty-four laborious days the unfortunate Trotter only obtained payment of £2893 of his notes. On presenting his bundle day by day, Murdoch & Co., with profound deliberation, proceeded to dole out the money in sixpences, regardless of protests or threats of legal procedure. Mr Trotter's own words are too entertaining to be passed over:—"When their Notes were presented at the office for payment, a *Bag of Sixpences* was with great Deliberation produced and laid upon the table; the Teller then proceeded with ridiculous Slowness to open up the Bag and Count the Money. He would first Tell over a pound sterling, in *single Sixpences* ranked upon the Table, and then affecting to be uncertain about the Reckoning, he would gather this small money, and count it over again from One hand to the Other, *sometimes* letting fall a Sixpence for a Pretence to begin anew and count it over again; on other occasions he would make Time by ridiculous discourses upon the *odd size or shape of Particular Sixpences*, SOUND another upon the Table, to try if it was sufficient coin. And *sometimes* he would quit his occupation altogether upon Pretence of some sudden Errand or Call out of the Room. Very often they employed one Coggill, by his ordinary occupation a Porter, to act the Teller, and he lost time and blundered with great alacrity —being instructed to do his worst." On 16th October 1758 Mr Trotter presented £600 of Murdoch & Co.'s notes, offering to receive in exchange Edinburgh notes or gold as they pleased; but it cost him and a clerk no less than nine days' attendance to receive £475 of this sum. From 7th November to 4th December he received average payments of £36 per day, at end of which time he had

£2821 Glasgow notes on hand, which Murdoch & Co.'s cashier obligingly offered to pay, £1000 in Edinburgh notes, *£821 in silver, as usual, and £1000 by bill on London, payable at thirty days' date! Melancholy* Mr Trotter's flesh and blood could endure this no longer; and, accordingly, the 23rd January 1759 found him in Murdoch's telling-room solemnly accompanied by a notary and two witnesses. Utterly abandoned, the shameless Coggill was again set to work "in the usual manner of payment" in sixpences. Some note-holders were not so well treated as Mr Trotter, being called "scoundrels" by the tellers, and otherwise abused. Sometimes a beating was threatened, and one man was said to have got both a beating and payment in sixpences. The instant the clock struck five all troublesome parties were "thrust out of doors by the shoulders"—a mode of satisfaction of which possibly Mr Trotter had experience.

An action was raised, before Lord Woodhall, concluding for payment of £3447, the amount of notes in Mr Trotter's possession, with interest from the date of demand, and £600 damages. From the "information" prepared for Mr Trotter, Murdoch & Co. seem to have had a large circulation—Mr Trotter asserting that he could have taken up from £80,000 to £100,000 of their notes at any time in Glasgow; and in another place he says, they cannot deny having "issued notes to the extent of above two hundred thousand pounds," although their capital was only about £10,000 or £15,000. The character of their business as merchant bankers gives an opportunity for the pursuer to state the dangers and distress caused to trade by banks engaging in mercantile speculations. The form of the notes was again discussed at great length, as in the Aberdeen case, special reference being made to the option clause, which had been inserted during the controversy. With shocking disregard to their comfort, he calls them "a Bubble and a public Nuisance," and demands that they should remain open for payment of their notes from seven in the morning to nine at night!

The defenders pled that Mr Trotter had acted in *mala fide*, being the agent of the two Edinburgh banks, and paid by them to live in Glasgow for the express purpose of distressing them, and causing a stoppage to their business, as had been done with the bank in Aberdeen. In spite of Mr Trotter's repeated denials that there was any intention to distress, the case was not decided, but was made *avizandum* of again and again, being suspended on every pretext by Murdoch & Co., until June 1760, when Mr Trotter presented a petition, complaining that the defendants were trifling with justice. The Lords remitted the case back to the Lord Ordinary, "to adjust the facts—and especially the fact of Mr Trotter's being a mere hand for the banks, and his intention to distress, which several of the judges thought obvious. Lord Kames observed that Mr Trotter should not have taken the notes. Lord Affleck thought the case of Mr Trotter like that of a man's buying up another's debts *in malitia*. The Lord President and Lord Coalston dreaded paper credit, and thought banks dangerous. A great variety of proceedings again took place before the Lord Ordinary, who again ordered pleadings to the whole Court."[1] Again and again Mr Trotter returned to the attack, and as often did Murdoch & Co. draw the Court away from the point by side issues. Thus the matter meandered on through the mazes of Court of Session practice for other three years, until in April 1763 the Glasgow bankers tempered their valour by a timeous discretion, and settled the matter out of Court by paying £600 in name of damages.

The scandalous delays in this case were chiefly caused by the hazy notions then prevalent as to note issues and bank notes. Seeing no precedent for a system of note exchanges, and being doubtless imbued with current theories, the judges of the Court of Session were too willing to lend an ear to Murdoch & Co.'s frivolous objections.

If Murdoch & Co. had kept a supply of coin proportionate to their issue, they would have had nothing to fear from exchanges of notes; but issuing, as they did, far

[1] *Scotsman*, 5th Apiil 1826.

beyond their resources, the coercive policy of the eastern banks practically forced them to dishonour their own paper. To do them justice, therefore, the two Edinburgh banks seem at this time to have been sincerely searching, in much uncertainty, after better things; endeavouring in the light of their own experience to place the banking system of Scotland on a more reliable basis, it being their own interest to do so, inasmuch as they were wholly looked to for assistance in times of panic. The dilatoriness of the Courts must have been specially annoying to the Bank of Scotland, who by their own Act of Parliament had been held liable to summary diligence for payment of their own notes.

An immediate practical result of this and of the Aberdeen case, was the refusal by the Edinburgh banks to receive any notes in payment except their own. The provincial bank notes having by this time acquired a considerable currency in the capital, towards which so large a portion of them gravitated, the effect of the banks' decision "was a loss to the people of Edinburgh, who, when they became possessed of notes of private bankers, in which indeed most of their wages were paid, were obliged either to keep them dead some time on hand, or pay 1½d. every 20s. for changing them" at the brokers (*Scots Magazine*). On the opposite page is a print of the Ship Bank's £1 option note, bearing the signatures of Colin Dunlop and Alexander Houston. Murdoch & Co.'s option note read as follows:—

Glasgow.

I, LAWRENCE SCOTT, Cashier, appointed by AND. COCHRAN, JOHN MURDOCH & COY., Bankers in Glasgow, in virtue of powers from them, promise to pay to JOHN ROSE or the Bearer on Demand **One Pound** Sterling, or in the option of the Cashier of the said Company, One Pound Sixpence Sterling, at the end of six months after a Demand, and the Accountant of the said Bank is to ascertain the said Demand and Option, by marking and signing this Note on the back thereof; the Date, Creditors' Names, and Sums inserted by me, and these presents, signed by me and the said ANDREW COCHRAN and JOHN MURDOCH.—(*Signed*) LAWRENCE SCOTT, ANDREW COCHRAN, JOHN MURDOCH.

To meet the requirements of Scots law, as interpreted possibly by the case of the Aberdeen Banking Company, it became customary to insert in these private note issues the name of the writer of the parts not printed, and also to lodge a bond with some city official, with full powers and particulars as to their issue. But it was one of Mr Trotter's pleas against Murdoch & Co. that they had neither lodged a new bond, nor altered the style of the old one, when they adopted the option clause, which was denounced as a glaring violation of the terms of their bond.

With this case the wars of the banks seem to have ended. The various proceedings, and the novelty of the expedients resorted to, afford a glimpse of the commercial courtesy and ignorance of the time ; besides shewing very plainly, that though some of our official fathers did not at once recognise that "competition is the life of trade," yet that, towards the middle of the century, a beginning had been made by the Bank of Scotland and the Royal Bank in the establishment of a sound principle for control of the circulation of bank notes. That principle as embodied in the clearing-house for notes which the two old banks and the British Linen Co. formally began in 1752 was reached, as has already been seen, partly in compromise of their own quarrels and partly from the object-lesson as to its necessity, supplied by the Aberdeen Bank and Murdoch & Co. of Glasgow. It so recommended itself that it came out of the troublous years preceding 1765 strengthened into an established institution ; and in course of years so completely did banking opinion change, that instead of the senior banks needing to coerce their juniors towards the practice, it became an object of emulation amongst the latter to share in the rank and respectability enjoyed by members of the note exchange. While 1752 is thus given as the date when a formal and regulated exchange began, it has been shewn how such exchanges had effectively begun in earlier years. The great battle of the exchanges had been fought out in 1728-30, and

subsequent encounters with the kites and crows of finance merely served to strengthen the agreement and prove its propriety.

From this period onwards the senior banks recognise, as an axiom in banking practice, the maintenance of an ampler metallic reserve, or of a restriction of credit where circumstances prevent such accumulations. The barbaric age had passed away, and observation had begun to reduce banking to a science. Such was the effect of competition.

CHAPTER III

1728-1760

NEW METHODS OF BANKING—CASH CREDITS, DEPOSITS, TILL-MONEY, PRIVATE BANKERS: THEIR SUPPORT BY THE JOINT-STOCK BANKS.

"As when some cloud-born torrents from the mountains freed,
Pour headlong downward, swoln by winter's rain
In meeting, overleap their ancient narrow bed,
And journeying seawards fertilise the plain."—*Anon.*

IN following the course of the note exchange from its troubled spring in 1728 to the comparatively quiet waters of 1763, some landmarks in banking history have been passed which now fall to be noted. Returning to the period following the Royal Bank's foundation, the new methods of banking then introduced can be traced in their relation to the note issues generally, and to one pound notes in particular. These were—the cash credit and deposit systems, the till-money used by the banks, and the rise of private banking.

In chronological order there came first the cash credit system. By these credits a fund of capital was placed at the disposal of merchants or traders, to be drawn out, repaid, or again drawn out year after year, in such sums as the debtor required, on security of his personal obligation by bond, signed by two or more responsible friends as co-obligants. Interest was charged, not on the principal sum of the bond, but on the balances as actually drawn out from the bank at the close of each day. At first the

bank by special advertisement limited operations to sums of not less than £10, and no odd shillings or pence were permitted. If allocation of annual interest caused the latter rule to be broken, the customer was requested on his next transaction to bring his balance to an even number of pounds, without fractions. By this simple means the good credit of three men became the capital of one of them by which tangible things might be bought or sold. Truly, if in worldly things it were possible to conceive of an exception to the rule "*Ex nihilo nihil fit*," the Royal Bank might take credit for the miracle on establishing these credits on 12th March 1728.

Second, there reappeared on a more permanent basis, the deposit system, whereby the surplus funds of the country were collected from all ranks of life, to be utilised by the bank until their repayment, with such interest as might be allowed during the continuance of the deposit. Notwithstanding daily repayments these various sums accumulated and formed themselves at length into a regular fund which, it was found, might be steadily relied on for trading purposes. It thus became possible and necessary to distribute this deposit fund in loans by discounting bills, or on cash credits at such rates of interest as sufficed to pay the interest due to the depositor plus working expenses, and leave a margin of profit for the bank.

These two first systems were mutually dependent on each other for success; cash credits could not have expanded as they did, had the expansive power not been supplied by the moneys received as deposits; and conversely, the latter required their utilisation by the cash credit to render them profitable to the bank or its customer the depositor. Of the two, the cash credit was the most original invention; the deposit system following as a necessary enlargement of funds, without which the credit fund could not have been maintained. It might have been more natural had the banks collected deposits before granting credits; and the fact of their doing the

reverse is an example how economic principle may be set aside by circumstances. How was it, then, that the cash credit was given before the deposit was collected, and why was it that the Bank of Scotland should be the first to place the deposit system on an attractive basis? thus forestalling the Royal Bank, which had hitherto led the way to reform. The reasons do not seem far to seek.

The Royal Bank had just begun business; it had a larger uninvested capital than its rival, and was eager to employ it; but in 1728 the opportunity for trade was so restricted by the general poverty that a tangible security was rarely to be got from those who could make a use of capital, and some other form of security had to be discovered. Having thus a new capital to launch and a larger uncalled capital against which to issue notes, the Royal Bank did not urgently need deposits, and to carry on its business the cash credit system unaided was found suitable for a time. All methods at this period and for nearly a century later were considered secondary to the issue of notes, and a cash credit was not valued which did not keep in circulation a substantial quantity of bank notes, and especially of one pound notes, as they continued longer in circulation. Apart, however, from these ideas, the notes, and pre-eminently the one pound notes in absence of a silver currency, formed the only existing intermediary between the deposit or capital fund of the bank and the possessor of the cash credit, whereby the deposit was made available for use to the cash credit. The note was the connecting-rod between force and effect —between capital and labour.

During the early part of 1728 the Bank of Scotland fighting for existence and had no time to think of ansion, but with 1729 came courage to meet the foe on own field. To do so, however, implied a change of ration, the old basis of capital plus note issue being small to conduct any new business, contracted as the er was by the conflict with its rival. In this dilemma

the old bank, with fine adaptability and ingenuity, adopted the cash credit scheme of its rival, and gained the necessary means to introduce it by receiving deposits on its "Treasurer's Bond" (paying interest at 5 *per cent. per annum*), the forerunners of their deposit receipts of 1810. The modern "deposit receipt" owes its non-negotiability to its descent from the old "Treasurer's Bond," which, being practically a personal bond, could only be legally transferred to a third party by a formal deed of assignment followed by intimation, and did not pass by simple endorsation.

Some years passed during which the old bank regained its position, for the option clause on its notes saved it from further premeditated attacks by its enemy, and in 1731 it further guarded itself by commencing to accept deposits for fixed periods, instead of payable on demand as formerly. The measure was possibly prompted by the same salutary dread of the Royal Bank which had previously driven the old bank into reform, and which now induced them again to open branches in Glasgow and the North. The times were still, however, unpropitious, and they were withdrawn in 1733.

The failure of these branches, and doubtless also the absence of general trade or accumulated wealth, prevented a steady maintenance of a deposit fund; for on several occasions, when under pressure of sudden demand, the banks advertised for deposits by higher interest, they afterwards repaid the sums deposited, or stopped interest so soon as the crisis passed away. It was not until the branch system was in wide operation that a deposit fund came to be recognised not merely as a temporary succour, but as an essential of general banking operations.

Like the deposits scheme, neither was the cash credit plan fully successful in its first application. The experiment was new, and bank managers were bound to act cautiously until experience was acquired. It was perhaps inevitable that the first credits should be given to the wealthier merchants, who gradually, from the character of

their business and natural emulation, developed into private bankers.

It is well, however, before chronicling the deeds of those small bankers to notice by what means these facilities of deposit or credit were passed from the giver to the receiver; by what agency a bank broke down the mass of credits received from and due to its depositors, so as to make it available to the wants of borrowers.

It is appropriate that this agent is known in the civilised world as "currency," that which passes "current," or "runs" like a liquid into the largest or smallest channel with equal ease; capable of indefinite subdivision or coalescence, according to the will of the user. In some respects, currency is to commerce what language is to mind. If either is disturbed, babel emerges as of old, and it is doubtless through some inarticulate consciousness of the immeasurable effects of a good or bad currency that governments in nearly all ages have claimed its control as their prerogative.

The records of the British Mint prove that if the confusion of Shinar was avoided in Great Britain during the eighteenth century, no credit was due to the governments of the period. From 1717 to 1787 the silver coinage was neglected shamelessly and continuously. During one hundred years prior to 1815, £598,809 was considered sufficient to serve the whole of Great Britain for new silver coin. In 1723, £149,000 was coined; in 1746, £136,000; in 1758, £62,586; and in 1787, £55,459. The total of these four exceptional years is £403,045, thus leaving £195,000 to supply the remaining ninety-six years. From 1752 the neglect of the Government took a more aggravated form. From that date there were fifty-nine years in which a meagre £3897 of silver was coined. The figures from 1752 are peculiarly instructive as to the extraordinary irruption of notes of all denominations which so suddenly sprang into being during the third quarter of the century in Scotland and England. Indeed, no explanation of that irruption can be considered complete which is not based

on this disgraceful neglect of duty by those who claimed that duty as their peculiar prerogative.[1]

Thus neglected by the responsible authorities, the public resorted to various devices for carrying on the *traffic of everyday life. In England the banking laws practically prohibited joint-stock banks other than the Bank of England, which issued no £1 notes until 1797,* while none of the private banks appear to have issued such notes until the latter half of the century. In the previous century various trade guilds and corporations of England provided a small currency by issuing tokens in large numbers, but the Government of Charles II. had been pleased to prohibit these in 1671-72, and their disappearance from that date may partially account for the intense distress caused by the deficient currency in the two last decades of the seventeenth century, until the renewal of the coinage in 1696. It may serve as a comparison of the relative wealth and trade of England and Scotland about the beginning of the banking era, to note that during the seventeenth century there are records of nearly 20,000

[1] The following shews the coinage of gold and silver money from the seventh year of Charles II. (1667) to 1816, the date of the renewal of the coinage :—

		Gold.	*Silver.*
Charles II. . .	1667 to 1685	£4,672,768	£3,272,311
James II. . .	1686 to 1688	1,659,026	386,675
William and Mary	1689 to 1701	3,526,770	7,129,942

(This was the period of the great re-issue, but through errors in the respective valuations of the metals, the mass of the silver soon left the country and very little benefit was derived from this truly great remedial measure.)

Anne . . .	1702 to 1714	£3,128,710	£530,608

(The silver in Anne's reign includes £320,373, struck at the Edinburgh Mint in pursuance of the Treaty of Union.)

George I. . .	1715 to 1727	£8,115,152	£229,905
George II. . .	1728 to 1759	11,034,979	304,288
George III.*. .	1760 to 1815	67,970,181	64,625

* (Of the silver in this reign, £55,459 was struck in the one year of 1787. During twenty-nine years of this king's reign no silver was coined !)

different issues of traders' tokens in England, while in Scotland there is no evidence of a single issue. Their abundance in the South, defective though they were as currency, proved the existence of a busy internal trade, the *necessities of which brought these tokens into use; while* their total absence from Scotland can only be accounted for by the general misery from war and poverty, in which no such currency was required. Barter performed the principal office in the exchange of commodities—the unwilling buyer gaining a double profit from the necessitous seller. A few hundred thousand pounds of clipped or worn silver of all ages and nations, feebly aided by the miserable copper or billon coinage, circulated in the towns. The first essential to better things was obtained when the Revolution of 1688 drove out the old misrulers and established some pretence of peace, law, and liberty. In less than ten years the tender grass began to spring from the soil so long desolated by strife, and trade expanded, as the means for its expansion were provided by the new currency supplied by the Bank of Scotland's notes. Speaking generally, the silver currency which formerly "moved" the whole commerce of the country, was limited, after the introduction of bank notes, to the shillings and pence of trade, the notes dealing with the pounds!

That is, instead of having in its tills, for working purposes, a money of metal, the bank kept a paper representative of money, which served the various purposes—first, for the public, of adding a supply to the general currency when issued; and second, as towards the bank, of saving interest on a metallic money which otherwise must have been withdrawn from the general currency and kept in the tills—a service which left to the bank a larger portion of its capital for general disposal.

A **till-money** of paper, therefore, though not strictly a novelty in 1728, dated its first material expansion from the new systems of banking then introduced; and as the term "till-money" has been applied in different senses according as it has been used and abused, some detail or

illustration may be useful. Money for the till, or change for the daily sales, is an essential for all business peoples from the biggest bank to the smallest shop. For the latter, a few pounds of silver or half-sovereigns and five shillings of copper coin may suffice; but for the former, with its six score of branches, a much larger sum has to *be held, and the character of its till-money becomes important in its nature and subdivisions.*

Elsewhere the writer has compared the relative positions of two banks—one issuing notes and the other not doing so—to two millers, one having at hand to drive his mill a regular water-supply, which the other does not enjoy. When those two millers began business, the waterless man had to sink and permanently lock up a part of his capital in installing and maintaining steam-power. His rival was spared this expense, and had therefore a larger available capital, which, other things being equal, enabled him to do a larger business, work more cheaply, and get more profit than his handicapped neighbour. Applying this in banking to two banks, each with one hundred branches, one million pounds of capital, and ten millions of deposits; the one with, and the other without a note issue. To conduct business at the head office and those branches, both institutions require water-power or its banking equivalent—change for the one hundred and one tills of the various offices—a fund of currency. This is entirely apart from the question of a reserve of coin, with which till-money is often confused; till-money being as distinct from such reserve as the miller's water-power was from his bank account, where a few hundred pounds lay ready to meet his general obligations. The bank account was his reserve, just as gold is the bank's; and his water-power was his working means, just as till-money is the bank's. The nearer the supply of the latter in both cases, and the cheaper, the better for the customers of both. The amount of this till-money required by two such banks has been found to be from £1,000,000 to £1,500,000 each, *i.e.* including some portion

of stock supply at head office, which has to be kept to meet demands whether the till-money is of paper or coin. The non-issuing bank has thus to sink the whole of its capital in purchasing gold or notes of the State or of other banks before it can grind a sack of wheat—continuing the mill comparison—while its rival can keep up the same banking fund by its own notes, which are costless (save cost of manufacture); are no liability until issued to the public; and free a certain portion of the capital for profitable investment or for purchase of a true gold reserve available for all obligations.

Necessarily a certain proportion of till-money must be of coin, either gold or silver, not merely for current demands, but to meet demands in event of their notes becoming partially discredited through some panic, or of gold being preferred to notes. All recent experience, however, has shewn that the note-holder is not the centre of danger in panic, but the depositor.

It would be vain to suggest what proportion of assets is sufficient to provide against a panic of depositors. More than to all theories a banker should by constant vigilance adhere to a good policy: "Watch and pray, and keep his powder dry"—for once notes are issued they cease to be till-money; they have become outstanding obligations which the issuing bank may at any time be called on to pay, and it is to satisfy such demand that a prudent provision has to be made out of the true gold or silver reserve; such provision is a matter of experience in different localities, and many banks have failed through allowing the spirit of economy to approach too closely to the line which divides security from risk.

Turning from the nature of till-money, its subdivisions are a matter of experience. Certain experiences to be related elsewhere, and perhaps not fully understood, led to a legal minimum of £5 being fixed for England and £1 for Scotland. Subsequently at a time of national emergency (1797) the powers that decreed these figures were compelled to lower the minimum to 5s.; the mother

of invention having already abrogated their law by tearing £1 notes into four pieces. Where a sufficient supply of silver coin is maintained, there seems no need to issue paper money for smaller sums than £1; but in event of any disturbance of such supply, there is no reason why notes of 10s. or 5s. should not be issued, provided precautions are taken to ensure the solvency of the issuers and the cleanliness of the notes.[1]

Such, then, were the three prominent methods of banking in 1730-50, and it remains to shew how all three were for a time constrained to flow in a contracted channel, if not indeed to be temporarily diverted from those national purposes in which they finally achieved their greatest success. Wisdom is proverbially easy after the event; so perhaps it was inevitable, considering the impoverished state of Scotland up to 1750, that for several decades such restriction of the banks' work should have occurred. The country of "1745" had made little progress —social or economic—for nearly a century. Men would still be alive who, as boys, had seen Claverhouse ride out of the West Port on his way to Killecrankie, and whose fathers had borne the torture of the "boots."

The peaceful effects of the Union had not had time to heal the wounds in the city's life caused by that event itself. The trade of the capital had been too dependent on the classes which the Scots Parliament drew around it; and the transfer of Parliament to London completed the desolation which King James's exodus began in 1603. The prosperity of Edinburgh sank to its lowest point just twelve years after the birth of the Bank of Scotland. The excitement of the 1715 rebellion, the Porteous Mob in 1736, and the bitter resentment at the city's humiliation by the House of Lords, were all symptoms of disappointment and unrest. Prince Charles was secretly welcomed in 1745 by a large number of citizens, willing to see in his presence the return to the prosperity of former days.

[1] The United States have now a complete establishment for cleansing and renovating soiled notes.

Edinburgh in 1750 was still surrounded by a wall, and consisted only of the High Street ridge, with hollows to the south, where lay the Cowgate and Grassmarket. The Nor' Loch barred access to the fields where now stands the New Town; and Towers of Babel, twelve and fifteen storeys in height,[1] everywhere crowded their gables to the sky. Probably not one of these contained the simplest forms of sanitary appliance. "Gardyloo!" (gardez l'eau) still warned the passenger that the cleansing department was in the future. Water was still carried in barrels to the tops of these tenements by semi-civilised Highland porters, to encounter whom on a corkscrew stair was itself a dangerous adventure. No South or North Bridges or Mound existed to give outlet across the deep valleys on each side of the town. The backward, spiritless tendency which had marked the business affairs of the city was only slowly departing, and so feeble was the external communication that on one occasion, on the arrival of the London mail, a solitary letter, addressed to the British Linen Company, represented all that London had to say to Edinburgh.

In this condition of social and political discord the Bank's choice of customers was limited to the better shopkeepers and merchants. Amongst the latter, however, was a special class, merchants who acted as exchange dealers; effecting remittances and other exchange operations—home and foreign. The banks did not touch this business, leaving it to men who, usually, had the advantage of a continental training. It was easy for these gentlemen to engraft ordinary banking operations on their exchange work; but it is noteworthy that, excepting John Coutts & Co., 1723, and James Mansfield, the "wee draper," 1738, there is no record of any of these mercantile exchange firms being known as bankers until after Culloden had closed the revolutionary era. One of these early merchants, William Hog, junior, received the first cash credit from the Royal Bank on 31st May 1728. It does

[1] Sir William Forbes & Co.'s office was in a tenement mounting thirteen storeys from the Cowgate to the skies.

not seem to have done him much good, for Sir William Forbes records the firm did their business "very confusedly," and they failed in 1769. The second failure of the old bank's branch policy in 1731 probably led them to despair of much business beyond the city walls for a time, and opened the way for easy terms to the various merchants and merchant bankers in the town.

The earliest and most famous of the latter has a connection as ancient as that of the Bank of Scotland itself. It was that of John Coutts, Lord Provost of Edinburgh in 1742. His father, Peter, or Patrick Coutts, and his ancestors had been merchants in Montrose for many years prior to 1694. In 1696, Patrick was in business in Edinburgh, and had various mercantile adventures in New York, Pennsylvania, Amsterdam, France, and the Canaries. He died in 1704, and it cannot be traced that his business was continued between that date and 1723, when his son, John Coutts,[1] is first known to have been in business in the President's Stairs,[2] Parliament Square. The house later carried on a London business as well as the parent business in Edinburgh. Members of the former formed the celebrated bank of Messrs Coutts & Co., while the Edinburgh firm traded as John Coutts & Co. Their Scottish business "was dealing in corn, buying and selling goods on commission, and the negotiation of bills of exchange on London, Holland, France, Italy, Spain, and Portugal. The negotiation of bills of exchange formed at that period a considerable part of the business of Edinburgh; for there were then no country banks, and consequently the bills for the exports and imports of Perth, Dundee, Montrose, Aberdeen, and other leading towns in

[1] *See* Sir William Forbes's "Memoirs of a Banking House." Provost Coutts died near Naples in 1750. Through his youngest son, Thomas Coutts, of Messrs Coutts & Co., London, he was the great-grandfather of that distinguished lady the Baroness Burdett-Coutts.

[2] The President's Stairs were at the south-east corner of the Square, and descended to the Cowgate. They were called after Sir Hew Dalrymple, who succeeded his celebrated father, Vicount Stair, as Lord President of the Court of Session in 1698.

Scotland, with Holland, France, and other countries, were negotiated at Edinburgh. *Provost Coutts's uncle, Thomas* Coutts, was one of the original directors of the Bank of Scotland, and his oldest son, John Coutts, was chosen a director of the Royal Bank shortly before his death in 1761.

In May 1754 there entered the office as apprentice a lad of fifteen, Sir William Forbes (born 1739), who had succeeded to a Nova Scotia baronetcy on his father's death in 1743. He was descended through both his parents from two ancient Aberdeenshire families, and during his five years of apprenticeship lived with his mother in a small house in Forrester's Wynd.[1] In 1761 young Forbes was admitted as a partner, and commenced that celebrated career "distinguished in an extraordinary degree, not merely by energy and ability in professional affairs, but by ceaseless efforts of an enlightened character for the public good, by inexhaustible private charity, by high taste and refinement, and the practice of all the active virtues. One would need to have lived through the last fifty years in Scotland to be fully aware of the excellences of various kinds which make people speak with such veneration of Sir William Forbes, and maintain a faith in his modest private bank such as is now scarcely given to the joint-stock of large copartneries."[2]

Some years later, Mr Richard Herries, a Dumfriesshire gentleman who had received his business training in Barcelona, was received as a partner. He was a forcible, ambitious man, and his Spanish experience led him during this partnership to invent, and finally in 1770 to carry into effect, the system of foreign credits now so well known as "Circular Letters of Credit." For two years these were issued through Messrs Coutts & Co., London (now separate

[1] Forrester's Wynd connected the High Street and Cowgate, and ran where now the east front of the County Buildings faces St Giles Church.

[2] Dr Robert Chambers's Introduction to "Memoirs of a Banking House," p. 4.

from Forbes's firm), but in 1772 Mr Herries opened a separate office in St James's Street, London, called The London Exchange Banking Co., by whom these credits were issued. The name of the Edinburgh firm was changed on 1st January 1773 to Sir William Forbes, J. Hunter, & Co., the proprietors continuing as partners in the Exchange Bank and also in their separate London house, styled Herries & Co., until 1775, when a separation was effected, Mr Herries, now Sir Robert Herries, taking over the two London connections, later known as Herries, Farquhar, & Co., and the Edinburgh business falling to Sir William Forbes, his friend Sir James Hunter Blair, M.P., and Lord Provost of Edinburgh, and Sir William's brother-in-law, Sir John Hay of Haystoun. For many years the firm remitted to London the whole revenue derived in Scotland from stamp duties and excise, until the amounts became so large that the Bank of Scotland, the Royal Bank, and Ramsay, Bonar, & Co. were asked to take their share in this public duty. The further career of the firm will be recorded as it arises, down to its junction with the Glasgow Union Bank to form the Union Bank of Scotland. That its good name had not deserted it is handsomely acknowledged by the directors of the Union Bank in their annual report to their shareholders on 10th May 1838, where, speaking of the junction in relation to their own foundation, they say: "It places this Company in a rank which its recent date could not otherwise have enabled it to attain, while the peculiar circumstances and nature of the two businesses particularly suit them for mutual assistance and co-operation."

This firm, under its different names, continued to do business with the Royal Bank for nearly sixty years, sending large numbers of its notes into circulation, although Bank of Scotland notes were also given if asked for. Mansfield, Hunter, & Co., in 1738; later Ramsay, Bonar, & Co., Thomas Kinnears & Son, in 1748; Fairholme, Cumming, Hogg, Alexanders, and a host of lesser firms —all had credits with, and issued the notes of, the two

joint-stock banks, although some in later years issued their own. In this way the old banks became less directly connected with the general public, and were looked on more as the Bank of England now is—a bank of bankers; *the Bank of Scotland and the Royal Bank granting credits to, or taking deposits from, the private bankers,* who in turn afforded similar facilities to the public. The extent to which this was carried on, may be judged from the facts supplied by Sir William Forbes in his "Memoirs of a Banking House." His firm had a credit with the Royal Bank of £4000; but latterly, instead of requiring to use this, they had deposits with the same bank seldom below £40,000; and as interest was only allowed on £20,000 of this, and that at 4 per cent. (after 1781 only 3 per cent.), the profit may well be judged to be, as Sir William states it, "not less than £3000 per annum." This probably includes the profits involved in the circulation of Royal Bank notes, for in addition to the notes kept by Sir William Forbes & Co. as till-money, and for which they had to pay in the usual way, they were the means of sending many thousands of Royal Bank notes into circulation.

The sanction of cash credits to these private merchant bankers has already been referred to as a misapplication of the system. In no trade or profession is the intervention of middlemen less desirable than in banking. This combination of merchandise and banking rendered the business peculiarly dangerous. Yet this was practically what the old banks encouraged, when aiding the establishment of mercantile banking on such terms. Blinded, apparently, by the prospect of embarking at once on a large and easy business, the banks did not scan the future far enough to see the ultimate effects on their own position with the outside public; nor did they consider that banking facilities afforded to the greatest number, formed a method so profitable and simple as dealing with a few large firms. There might be some plausibility in their argument, and if these firms had worked in a legitimate

way no great harm might have been done, though the principles on which they were assisted were wrong. But it is notorious that the majority did not carry on legitimate business, but indulged in mercantile and stock-jobbing transactions, which, though then deemed fair trade, were outside the sphere of a banker. Thus in many cases money which was withheld from the public by the old banks to be handed over to these private firms never ultimately reached the public, being used instead for speculative purposes. One example may be given of the kind of traffic then too common. The refining of sugar had begun in Edinburgh in 1751, and, being lucrative, a number of Edinburgh bankers promised themselves huge profits could they but start a similar trade in Leith, then rising to importance as a seaport town. The Leith Sugar-House was accordingly built in 1757, and in five years the whole capital was lost. The reader can infer whose capital was lost. Lead-mines, gold-mines, coal-pits, paper-making, corn speculations, were favourite ventures; almost all ending disastrously for the firms who had sunk their means and their deposits in them. As years went on, and private bankers multiplied, the old banks lost touch of the truly mercantile class, who looked chiefly to the private houses for that accommodation which the latter in turn received from the joint-stock banks. Under such conditions the spirit of prudence and independence was lost amongst the smaller bankers, who recklessly traded to the full extent of their means, keeping no reserves to meet the credits with which their various connections flooded the country, but helplessly looking for assistance to the big banks to carry them through their difficulties. The joint-stocks, in turn, while bearing the brunt in times of panic, had insufficient knowledge, in ordinary times, of the nature of many of the undertakings which their notes and credits were used to foster. During the speculations of 1760-65 private bankers' cash credits were considerably restricted by the old banks, who at that time required all their resources to meet the heavy demands made upon them; superior attractions for

depositors being held out, in all probability, for the same cause.

Towards the end of the century another and more serious difficulty arose in the management of the joint-stock banks themselves. Some of these private bankers having risen to affluence in the city, were looked upon as fit persons to be entrusted with the direction of the large banks—an office which they eagerly coveted. As directors, they were alleged to have helped themselves in various ways to the bank funds; sometimes even, according to a common rumour, refusing an advance to an old customer of the bank, at the board meeting, in order that his business might be secured for their own banking houses. For many years the progress of the banks, especially of the Bank of Scotland and Royal Bank, was retarded for these selfish ends; and it was not until about 1810 that they got strength to throw off this "old man of the sea," who did not accept his downfall without much vituperation at the meanness and jealousy of those who refused any longer to supply him with legs.

CHAPTER IV

1730-1765

THE OPTION CLAUSES—NOTE-ISSUING MANIA—RESTRICTION ACT OF 1765.

> "Blest Paper Credit ! last and best supply,
> That lends corruption lighter wings to fly."—POPE.

HAVING treated thus far of cash credits, deposits, till-money, and the irruption of private bankers, there is still one more novelty to speak of in the banking begun about 1727—the option clause and its effects. Although introduced as a temporary expedient by the old bank in its struggle with the Royal Bank, the privilege the clause claimed on its face seems not to have been abused until about 1756, when the Glasgow banks revived the delay. As 1760 approached, the restless feeling of advancing prosperity forced the postal authorities to increased diligence. Immediately after 1750 the city wall was broken down in various parts to permit of expansion; the Nor' Loch was drained, and in 1763 the North Bridge was opened. The capital and the country had at last wakened from their sloth, and the last half of the eighteenth century was to be marked by an advance such as no previous age had witnessed in Scotland. Instead of the three posts weekly between London and Edinburgh, taking 87 hours coming north and 131 going south, there were five deliveries weekly to almost every town in the kingdom, the old system of foot-messengers being abandoned and horses used instead. Meantime the

ready means afforded for raising money by issue of notes were taken advantage of by a number of impecunious individuals in the capital, whose example spread like wildfire through the surrounding country; and also with England, in a manner which has no parallel save in the North American note issues of 1780. Adam Smith, in explanation of the wonder how these notes were accepted in payment, says: "A person whose promissory note for £5, or even for 20s., would be rejected by everybody, will get it to be received without scruple when it is issued for so small a sum as sixpence. But the frequent bankruptcies to which such beggarly bankers must be liable, may occasion a very great inconveniency, and sometimes even a very great calamity, to many poor people who had received their notes in payment." Not bankers merely, too numerous as these were, but all classes of people, tradesmen, shopkeepers, coffee-house keepers, employers of labour, and corporations, from the highest to the lowest, adopted this new and delightful way of not paying old debts.

Underneath is an example of a skit published in Glasgow at this time, not more absurd than many of the real notes; a border of eleven wasps flew around the note, and three more crawled under the words "We Swarm":—

Glasgow, January 16th, 1765.—We Swarm.—I, JOHN BRAGG, Cashier for ANDREW WHITECOCK, DUNCAN DICK & CO., Bankers in Glasgow, having powers from them, Promise to pay to THOMAS TAILOR or the Bearer on Demand **One Penny** Sterling, or in option of the Directors THREE BALLADS, six days after demand; and for ascertaining the Demand and Option of the Directors, the Accomptant and one of the Tellers of the Bank are hereby ordered to mark and sign this Note on the back hereof.—By Order of the Court of Directors. (Signed) ANDREW WHITECOCK, JOHN BRAGG.

Notes payable on demand, or, in the option of the grantor, six months after the date of presentation, or for a certain amount of food, work, drink, or other commodity, were poured out upon the country for 10s., 5s., and down even to 1s. Scots, to an extent which ate up the feeble

metallic currency as cleanly as the rats picked Bishop Hatto's bones.

As an example of those shopkeeping bankers may be named Peter Williamson, who lived in Edinburgh at this time. He had in his youth been kidnapped from Aberdeen. The ship which bore him was wrecked on the American coast, and he was sold as a slave in Philadelphia for £16. The canny Scot improved his position by marrying his owner's daughter, but shortly after his master died; his house was burned by Indians, and Peter was carried again into slavery. Escaping, he returned to Scotland, settled in Edinburgh in a tavern coffee-house, and in 1764 turned banker, as the following note proves:—

£0 : 1 : 0 Sterling. No...... EDINBURGH, 25*th August* 1764.

I promise to pay Sir JOHN FALSTAFF or bearer on demand, in books, coffee, or ready money, one shilling value received. According to the Option of the Directors.

P. WILLIAMSON.

Bank Hours from 10 *to* 12 *Noon.*

Williamson eventually became a bookseller and printer, and in 1786 published the first "Edinburgh and Leith Directory." Before his death he also founded a local penny post.

Another specimen of these curious notes, by the Mason Barrowman Company of Edinburgh, is given opposite. It seems scarcely credible that there was any serious intention in the note, but for the care with which it is got up and the schemes adopted elsewhere to raise a currency by tokens of the smallest coin, for even copper coins were scarcely to be got.

At a meeting of the Town Council and citizens of Aberdeen with their County Committee, held about 1755, it was unanimously resolved to refuse every note of the Glasgow banks that might be offered in payment, as the town was inundated with the infamous "inconvertibles" of

Murdoch & Co. Warm discussion ensued, and though the expressed opinion was anything but complimentary to bank notes generally, the notes of the Edinburgh banks were specially excepted from the condemnation. This opinion of Aberdeen citizens in 1755, only two years after the stoppage of Livingston, Mowat, & Co., the first bankers in that city, is an evidence that the Edinburgh banks were not considered blameworthy for any action they had taken in compelling Livingstone's bank to retire their notes. One writer, in a very sensible "Address to the Town and County of Aberdeen," dated in 1755, complains of the condition of trade, and points out that the chief cause of depression is "the currency of paper money or bank notes, which by increasing the quantity has sunk the intrinsic value of our money, without the smallest advantage to any individual but the bankers themselves. I may venture to affirm that there is at least twice the value of bank notes as there is of real money circulating in Scotland (if I had said six times the value perhaps I had spoke within bounds), so that here is the whole cash of the kingdom tripled by a fiction. Labour and goods rise or fall as money is cheap or dear. In times when money is really cheap, the disadvantages attending a rise in prices are mollified by the increased riches of the country; but when the plentifulness of money is induced by a huge volley of paper money, such stagnation is lasting so long as the money paper lasts, and thus trade is reduced and commerce languishes by a mere paper fiction."

The city of Perth made itself notorious by the manufacture of these notes, no less than six banking companies springing into existence at this time, all trading in these small fish. "The first bank established there was called The Banking Company, and commenced business 4th June 1763, the notes signed John Stewart & Coy., and Perth arms at the head. In the course of little more than the next twelve months no fewer than five banking companies were established, namely, The Tannerie Bank-

ing Company, erected 4th June 1764, the notes signed Stewart Richardson & Co., an oak-tree being at the head; The Banking Company, 20th June 1764, the notes signed Wedderspoon & Co., the thistle and crown being at the head of the notes; The Banking Company, 17th July 1764, the notes signed M'Keith, Rintoul, & Co., the king's head being at the top; The Craigie Banking Company, 20th August 1764, signed John Ramsay & Co., bearing a garb on their notes; The Banking Company, 3rd September 1764, the notes signed by John Bruce, and having the Bruce crest and motto at the head."[1] The wonder is, that they all had the good sense to amalgamate (after the passage of the 1765 Act) into the Perth United Company, afterwards the respectable Perth Banking Company, the premier bank in the Fair City for nearly a century, merged in the Union Bank of Scotland in 1857.

Similar houses sprang up in Dunkeld, Auchtermuchty, Montrose, Linlithgow, Kirkliston, Falkirk, and elsewhere; but Dempster & Co., of the Dundee Banking Co., who came into existence in 1763,[2] excelled them all in iniquity, by postponing legal payment for twelve months—offering to pay, as they chose, either on demand or at the end of six months, in gold, or in notes of the Edinburgh banks, the latter bearing a second option clause of six months. A facsimile of their one pound note is given opposite.

A number of these note shops were able to go on for some years, their issues being paid out by hired agents—who received a quarter per cent. to travel about the country, exchanging their notes for gold and notes of other banks. The inevitable loss fell, unfortunately, heavily on the people, who were compelled to keep numbers of notes in their possession, from the want of any means of obtaining payment except under a charge for commission. Edinburgh suffered severely from this, as well as such centres as Aberdeen and Dumfries.

In 1763, from the same distrust of the mercantile

[1] "History of Perth." T. H. Marshall, Perth, 1849.

[2] This bank survived to join the Royal Bank in 1864.

element when conjoined with banking, two important Edinburgh banking houses ceased to have any connection with mercantile or trading operations. This was the more remarkable, as of the twenty Edinburgh private banking firms only two or three confined themselves solely to banking, all the others dealing in corn, tobacco, or other merchandise. The two houses were those of Sir William Forbes, James Hunter, & Co., and the British Linen Company. The former, taking advantage of a change of copartnery, resolved, from and after 1st February 1763, "that the house at Edinburgh should totally abstain from dealing in corn, or any other species of merchandise; confining themselves solely to their regular business of receiving money on deposit, granting cash accounts, discounting bills, and dealing in exchanges on London, Holland, and France—a resolution to the adherence to which the great prosperity of the house may—under heaven—be mainly attributed."[1] On several occasions the firm transgressed their rule, and were invariably punished by the heavy losses which ensued.

The same prudent course was followed by the British Linen Company, for the slightly different reason that it "would be of more utility, and better promote the objects of their institution, by enlarging the issue of their notes to traders and manufacturers, than by being traders and manufacturers themselves." Their subsequent history showed that the "enlarging the issue of their notes" had not been abused, however sinister such a statement then appeared.

Public attention to the danger of the unredeemed paper currency was at last thoroughly aroused, and at meetings of the heritors and gentry of Aberdeenshire, Roxburgh, Selkirk, Haddington, and other counties, the matter was discussed, and various remedies suggested—all except Renfrewshire resolving to take no other notes than those of the Edinburgh banks, and to agitate for the abolition of the option clauses. The western county maintained that

[1] Sir Wm. Forbes, "Memoirs."

many of the Scottish banks were quite as sound as those in Edinburgh, and that restriction of the latter would only help to give them a monopoly of banking.

In October 1763 the Linlithgow justices proposed that all notes below £1 should be swept away along with option clauses. The pamphlets and writers in the *Scots Magazine* in this year on the subject are legion, but one is specially deserving of attention, who insists that private bankers should only have the right of issue granted to them on proper inspection being made by Government officials, and upon advertisement twice every year, in the public papers, of a full statement of their assets and liabilities—a writer who was evidently ahead of his time. From 1750 on to 1770 the Commissioners of Supply of many counties held meetings to deal with these questions, but being composed largely of county gentlemen and not of mercantile men, they restricted their efforts to a stoppage of provincial notes or notes below £1, and did not see the real course of the distress, the insufficient coinage. The welter of small notes was the last expedient of the suffering multitude of shopkeepers and common people choosing the least of two evils, a poor currency rather than none; and it will be seen how the summary stoppage of all notes below £1 in Scotland in 1765, and similar withdrawal of notes below £5 in England from 1775, was the signal for the second great outburst of token money in English history.[1] In Edinburgh the British Linen Bank had issued 10s. notes so early as 1750, and the Bank of Scotland issued some in 1760; also the banking firm of Mansfield, Hunter, & Co. issued notes of five shillings on 1st June 1761, and coming from so well established a house, payable on demand and without an option clause, they were of genuine service in the absence of coin; for though the gold coinage had been tinkered in the previous year, nothing was done for the silver coins.

With this exception none of the private banks in the capital engaged in this very "small note" trade, as they

[1] *See* p. 344.

did a lucrative business during this period acting as agents for various country or Glasgow banks on commission. The Thistle Bank, which began in 1761, founded by Sir James Maxwell and others, at once issued notes of £1 and 10s., bearing a "notandum at the foot of their notes, 'The possessor may call at Mr Kinnear [a private banker] at Edinburgh, who will give them Edinburgh Notes in exchange for them,' so that Edinburgh banks are obliged to find specie for other Notes as well as their own, and thus compelled to introduce the Option clause" (*Scots Magazine*, 1763).

Two of the large banks struggled hard before submitting to the objectionable option clause. The Bank of Scotland had been the first to adopt it in 1730, and still bore the clause on their notes; but the Royal and British Linen Company banks had not availed themselves of it. The demand for specie from them became therefore so severe, that the Royal, in self-defence, was compelled to give way about 1761, and adopt the odious precaution.[1] The British Linen Company endured the drain only a short time longer, for in the same year they state, that "the very great scarcity of silver, and the unwarrantable methods taken to carry it off, having induced the directors of the Royal Bank to issue notes with the like option clause contained in those of the Bank of Scotland, and all the private banking companies; this measure of the banks has occasioned an unusual demand for specie for the company's notes, and made it not only advisable, but necessary, to take the same precautions the banks and other companies have done."

Cotemporary pamphleteers alleged that the coin was chased out by this paper scourge; others, with more accuracy, plead the absence of coin as the cause of it. Among many authorities as to the public irritation caused by this deficiency, none proves the case more thoroughly than Mr Maberly Phillips, in his recent work on North of

[1] A facsimile is given of one of the Royal Bank notes bearing the optional clause.

England Banks and Bankers. His references are continuous, rising everywhere; advertisements from the numerous prints of the period, handbills and announcements of warning to the unwary, of the base coinings, clippings, and other villainies made possible in a country almost devoid of a trustworthy governmental coinage. The wonder is that our ancestors could exist in an atmosphere of such continual uncertainty and inconvenience. Yet in that atmosphere they were left to live and move for nearly a century. Two causes for this state of affairs lie on the surface:—a third and the most important is not so obvious, and escaped the notice of many writers.

In the inland exchange, that with London was always more or less against the distant North, and of itself was sufficient to attract gold and silver from the provinces to London, in absence of sufficient bills on London to settle adverse balances. In such a condition the pseudo-remedy of supplying a deficiency of currency by more paper currency only aggravated matters by raising the exchange still further in favour of the Metropolis, and causing the small amount of coin remaining to be also carried South.

A serious drain of coin was occasioned by the disastrous harvest of 1756, when it is said £200,000 value of foreign grain was imported. Further, from 1755 to 1763 the Government was wholly occupied with the "Seven Years' War," where they fought for and against Frederick the Great alternately, with equal absence of good reason. The expense of the British army abroad raised the foreign exchanges against London, with the result that a steady drain of coin passed to the continental bankers there to pay the expenses of the army in Germany. These foreign entanglements led to neglect of such internal affairs as the metallic currency. Nearly half a century had passed since its renewal, and it had become utterly disorganised, only the worst coins remaining in circulation.[1]

[1] One package of £192. 3s. light gold weighed only 45 oz. 9 dwt.; it was sent to London, and realised £177. 8s. 2d. Loss, £14. 14s. 10d. = £7. 13s. per cent.

The third and most important cause of silver coin deficiency lay concealed in the particular system of bimetallism then in force. From early times until 1664, the relative value of gold to silver had been fixed in England by Royal Proclamations. From the latter date to 1717, there was no such authoritative tie; silver coins were the only legal tender, and the value of the subsidiary gold coinage varied with the prices of the bullion market, or of continental coinages. In 1717, Sir Isaac Newton, as Master of the Mint, was asked to report on the continued exportation of silver. He made certain recommendations under which the gold guinea was permanently rated at twenty-one silver shillings. The relative prices of gold and silver coin in the countries of the world were then so unequal that it is probable that at the time of Sir Isaac's enactment he was slightly in error as to the true relations of the two metals. Events proved, as the century went on, that silver coined at 5s. 2d. per ounce was undervalued. Concurrently with this undervaluation of silver in Britain, the corresponding bimetallic tie in France had been fixed so as to undervalue gold, and other continental nations followed France in different degrees of the same error. Thus there was the position of English merchants holding silver coin unable to get its full bullion value at home, realising such full value and more by melting down and exporting it to France, taking in exchange continental gold. The latter in turn not getting its full value in exchange at Paris and Frankfort, being exported to England, where it fetched more than its continental market value in silver; so France and the Continent though nominally bimetallic became practically monometallic (of silver), while Britain also at that time bimetallic in name, became practically monometallic (of gold).

Similarly, a century of conflict occurred between the monetary systems of Spain and Britain, by which so serious an importation was made to the latter country of worn Spanish or Portuguese silver money that in 1774 Britain attempted a measure of protection by making

silver legal tender for £25 only. The effect of these different ratings was to keep the coins of the respective countries practically at the mercy and in the hands of bullion dealers, who melted down, exported British coin, or imported foreign coin regardless of the necessities of the public. The most lasting and important effect of these errors in rating was the storing of gold in such quantities as led the way for the coinage legislation of 1817 and the formal adoption by Britain of a monometallic basis of gold for the currency.

In a country where war expenses carried off the gold and foreign exchanges removed the silver, the people are scarcely to be blamed who found a substitute in paper money. They were at least more consistent than their rulers.

In the midst of this deficiency of currency, the nation had entered on the wonderful era of progress which continued from 1750 to 1800, and in this progress it was inevitable that the sanguine and unscrupulous should both see a glorious prospect, where everyone, regardless of means, was hastening towards the ruin of 1772. The legislation of 1765 gave a temporary check, which only continued until new routes were discovered, and into these the speculators greedily ran, to find themselves involved in the national disaster of Douglas, Heron, & Co.'s fall.

The effects of the two old banks' operations can be easily traced throughout this period, and it is curious to note how their evil precedents were copied as readily as their good measures were abused—the latter being debased by conversion to the use of the former. The unhappy origin of the "option" clause is directly due to the Bank of Scotland, but the cash credit system had also its share in unwittingly increasing the number of notes so postponed. To enlarge the profits of the system, credits were at first granted to anyone, private bankers or otherwise, without due regard to the proportion which the total of such credits bore to the capital of the bank or the general trade of the country, so long as the circulation of

notes was increased. These private bankers in turn granted credits to smaller men, issuing their own notes after a time, and thus giving an example which was finally communicated to the lower trading community. So that, lastly, the lowest classes of shopkeepers, tormented with a wretched metallic currency, likewise took advantage of the freedom from all restriction of issuing notes, seeing a means of doing so with immunity by means of the option clause. At no part of Scottish banking history does the want of legislation appear more pressing than at this. The essential principle of a note issue—prompt convertibility—was forgotten. Fortunately, the trouble was speedily dealt with. The county meetings had not been without effect. The old banks discerned the mischief their own hands had helped to create. The fall in the exchanges was a serious item against their profits; as, apart from the depletion of their specie reserves,[1] it involved the issue of so many small notes, placing their own larger notes (for once 20s. notes were "large") at a disadvantage, cutting them out of circulation, and led to their replacement by worthless paper, bearing the unworthy option clause.

The remedy obtained from Government by the Bank of Scotland and the Royal Bank, through the good offices of Lord Advocate Miller of Barskimming, son-in-law of Provost Murdoch, of the Glasgow Arms Bank, is another example of the manner in which Government has often dealt with these questions—mistaking the effects for the cause, legislating for the former, and leaving the latter out of sight. No effort was made to improve the coinage, no regard was paid to who ought or ought not to issue notes, the right was still left open to all who cared to exercise it.

[1] About 1762 the British Linen Company were so short of gold, that they paid a Mr Walter Elliot £2. 2s. for collecting £350 in gold for them at Stagshaws Fair. Cattle fairs were favourite haunts for the collection of gold coin, as they were much frequented by English purchasers, who came with gold in their pockets. In Mackie's "Tour through Scotland" it is recorded that in 1723 nearly £30,000 was paid in gold for cattle at one great fair at Crieff.

Notwithstanding this defect, the Act 5 of George III., c. 49, remedied four matters of detail satisfactorily. The optional clause was swept away, no one being allowed from and after 15th May 1766 to issue any "note, ticket, token, or other writing for money of the nature of a bank note, circulated or to be circulated as specie, but such as shall be payable on demand in lawful money of Great Britain, and without reserving any power or option of delaying payment thereof for any time or term whatever." Section 4 granted recovery of notes under the law of summary diligence, which, though plainly enacted in the statutes of Charles II. and William II., 1696, c. 36, as to bills, had been nevertheless so interpreted by the Court of Session in the cases of Royal Bank *v.* The Bank of Scotland, and Trotter *v.* Murdoch, that promissory notes were not included. The dread of "summary diligence" had been completely put to rest by the case of the Aberdeen Bank, as bankers had only to continue issuing promissory notes —*i.e.* documents not of the "nature of bills"—to make themselves secure against that form of diligence; while they were always assured of their right of such diligence against the Bank of Scotland, who had been held liable to it by the decision of the House of Lords in favour of the Royal Bank. Thus the old bank for nearly forty years after 1727 was the only bank in Scotland[1] whose notes were payable on pain of summary diligence. Notwithstanding this security, the ignorant public did not confine their patronage to the old bank, for as a writer in the *Scots Magazine* of 1770 remarks, "Country people, who are not clever at perceiving distinctions, see a mixture of print and manuscript, with some flourishing, and they inquire no further." The uncertainty upon this important

[1] The Royal Bank, happily, never had occasion to have the question discussed in court as to their notes. But even in their case, from their notes being promissory notes, it is questionable if summary diligence could have been obtained, this right not covering promissory notes until 1765, under the Act referred to above. See page 99, as to Prince Charles's attempt to protest their notes in 1745.

point aided materially in increasing the number of worthless note issues from 1750 to 1765, as, had their grantors known their liability to be put to the "horn" when payment was not made upon demand or at due date, they would scarcely have been so eager to launch their inconvertible paper on the public. So far, then, the Act of 1765 did good by stating distinctly the liabilities of the note issuer.

In event of non-payment, a protest could be taken between the hours of nine in the morning and three in the afternoon, which was to be registered in the competent judicatories within six months after the date of the protest, "letters of horning upon a charge of six days, and the other usual execution of the law of Scotland to pass thereupon."

To avoid such delays as disgraced the cases before mentioned, no suspension or *sist* of the charge to pay was to pass except upon discharge of the notes by the holder, or tender of the full sum contained in them by the grantor, in the form of an instrument duly signed by a notary public and two witnesses, with legal interest and all expenses of protest, registration, and such diligence as might have followed thereon. In event of any overcharge in the expenses, the banker was at liberty to seek his remedy in the proper court, by an ordinary action; while the right of the holder to damages for delay in payment was also specially reserved.

With the same object of preventing delay through protesting each note separately, it was enacted that protest of any number of notes might be made jointly, by prefixing the full tenor and contents of any one and thereafter adding the dates and numbers of all others of the same tenor.

The seventh clause, the most drastic in the Act, after narrating the inconveniences caused by the issue of notes of small amounts, declared that from and after 1st June 1765 no notes were to be issued, re-issued, or given out as specie by any person, "for any sum or sums or money less than twenty shillings lawful money of Great Britain," upon

pain of a penalty of £500. As might have been anticipated, many of the erring banks heard of this Act with much anxiety as to its effect. The Dundee bank was a fair example of many others. On 21st February 1765 "the directors resolved to circumscribe the circulation of notes, and to grant no more cash credits, till the effect of these alterations in the law is seen." The necessity for some more definite action was speedily forced upon them by the remembrance that their note issue amounted to £34,503 (of which £28,526 were £1 notes), and that they only held £1395 of specie to meet this large sum. Their London agents were hurriedly requested in April to collect, "as fast as they could," £1740 in small gold and silver, half guineas, quarter guineas, 18s. pieces, 9s., 13s. 6d., and 4s. pieces, while Mr Fyffe, their agent in Edinburgh, was "told to pick up what gold he could under a guinea"; further, "the directors finding the company distressed by the great demands on Mr John Fyffe, their Edinburgh agent, for retiring their notes, are unanimously of opinion that the only remedy that can be applied thereto is by abridging the business of the company. The cashier is therefore desired for the future to discount no bills excepting those payable in London, Edinburgh, and Glasgow."

In the wild regions of the Western Highlands, amid the fishing industries, this clause was disregarded for many years. Evidence was given of such notes to the Parliamentary Enquiry of 1826. The notes were similar to the following:—"Tobermory, Island of Mull, 9th January 1825. For want of change I owe you 5s., and for four of those tickets I will give you a £1 note. John Sinclair."

Immediately after the passage of the Act, notes below 20s. steadily declined, while the others did not materially increase; the exchanges rising slightly, as a natural result, the drain of gold stopped, and the better class of banks and bankers began vigorously to increase their metallic resources, so as to ensure convertibility when the different sections of the Act came into operation. The Royal Bank at this date paid 4 per cent. for deposits, a rate that indi-

cates their anxiety to add to their available resources. Notwithstanding all these efforts, some years passed before the exchanges were again in a satisfactory state. More than a hundred years have elapsed since then, but the Scottish note issue has never sunk below par.[1]

Throughout these remarks upon the new departures in banking, brought in about 1730, we have endeavoured to shew the action and reaction of each upon the note issues of the time. Of the five systems spoken of, three still exist and flourish—cash credits and deposits, and a paper till-money—mutually supporting each other, and now freed from the impeding clutch of private banking. The latter continued for nearly forty years in great force, and stretched in gradually diminishing strength into the nineteenth century, to expire about 1830; while, as has already been seen, the option clause was summarily removed in 1765. Much as had been done by the note issues in all these transactions, the great work of the one pound note was yet to be begun, when branches were founded throughout the country.

During the twenty years 1740 to 1760 a number of forgeries occurred, none of importance historically, except

[1] Adam Smith mentions that during the first years of the abuse, while the exchange between London and Carlisle was at par, that between London and Dumfries would sometimes be 4 per cent. against Dumfries, though this town is not thirty miles distant from Carlisle. But at Carlisle bills are paid in gold and silver, whereas at Dumfries they were paid in Scotch bank notes; and the uncertainty of getting these bank notes exchanged for gold and silver coin had thus degraded them 4 per cent. below the value of the coin.

Sir William Forbes states that the rate of exchanges was sometimes so high as 5 per cent. against Scotland for bills on London.

On the passing of the Act 12 George III., c. 72, in 1772, bank notes by sect. 39 were specially excluded from the six years' prescription first enacted in that year, for bills and promissory notes.

So far as this Act related to bills and promissory notes, it was made permanent by the Act of 1783, 23 George III., c. 18, cl. 55. A sexennial prescription on all simple contracts such as bills and promissory notes, had existed in England since 1623, when the Act 21 James I., cap. 16, was passed.

one in 1758, when, for the first time, a Bank of England note of £20, the smallest then in use, was imitated. The forger, Vaughan, a linen-draper in Sheffield, was executed. The unfortunate man had fallen into the snare through his attachment to a young lady of Sheffield, to whom he wished to appear wealthy. In Scotland, in 1764, James Baillie, a Dundee schoolmaster, was condemned to stand in the pillory for a day, having a label on his back bearing the words "Infamous Forger," and thereafter to be transported to America, "never to return."

In 1749 the first reported case of a claim for a lost note in Britain was decided against the loser—*see* Crawford *v.* Royal Bank, p. 302. The year 1758 may be remembered as that in which the first English decision was given upon recovery of stolen notes. A mail-coach having been attacked in England, a number of notes were stolen and put into circulation. The loser subsequently sued a *bona fide* holder for certain notes the numbers and dates of which he had. Lord Chief-Justice Mansfield decided that bank notes were of the nature of coin, and could not therefore be followed and reclaimed by the party losing, the onerous *bona fide* holder was therefore entitled to demand payment from the bank.

On 24th March of the same year, the Royal Bank issued the first Scottish notes for one guinea, the reason assigned for this curious denomination being, that the scarcity of silver rendered such a means of giving change a necessity; and accordingly they were put up in packets of nineteen,—such a packet, with one shilling added, making exactly £20. They read as follows:—

"THE ROYAL BANK OF SCOTLAND (pursuant to Act of Parliament, and Letters Patent under the Great Seal) is hereby obliged to pay to *David Baillie*, *Secretary*, or the Bearer on Demand, One Pound One Shilling."

The words in parenthesis appearing for the first time in their notes, occasioned some hesitation in their reception amongst the commonalty, which however soon passed away.

These notes were issued during the year 1758 alone, no more being put out until May 1768, when both the senior banks stopped their issue of one pound notes entirely, replacing them with guinea notes. In a short time the British Linen Company and many of the other banks adopted the same course, and for the same reason, to add an odd shilling to the currency. The name "Guinea" (from the Portuguese *Jinnie*, a trading town) took its rise from the gold coin of 20s. coined from gold brought from the Guinea coast in 1663. These changed value much as measured in the contemporary silver currency, but subsequently settled at 21s. sterling. From its African connection, a small elephant was stamped below King Charles's head.

Allowing that the Dundee bank's issue of small notes was abnormally large, there is still ample ground for assuming that the proportion of one pound notes, or guinea notes, circulating in Scotland at that time must have been little short of 80 per cent. of the whole circulation—a larger percentage than at present, when it is only about 70 per cent.

A considerable exchange business was done in Edinburgh during the years of the inconvertible note issue, by bankers and merchants exchanging the notes of the country banks at 1d. per 20s. note; as the issues increased, and people became more anxious to get rid of their "dead money," the brokers advanced the rate to 1½d. per 20s. note, equal to 12s. 6d. per cent. In 1766 small houses made quite a harvest, even at the lower rate of 1d. per 20s. note. Larger amounts were exchanged at 5s. per cent. for Glasgow notes, and 7s. 6d. per cent. for those of Perth and Dundee.

CHAPTER V

1745-1770

THE REBELLION OF 1745—THE BRITISH LINEN COMPANY—NEW BANKS—BRANCHES.

"In the long run the State, or Individual, or Company thrives best which dives deepest down into the mass of the community, and adapts its requirements to the wants of the greatest number."—W. E. GLADSTONE.

CHRONOLOGICALLY, the rise of this strangely named bank should have been narrated in an earlier chapter; but it has been thought advisable to carry the story of errors to a conclusion; to depict the scene of confusion upon which the new company was ushered, and to notice how, to some extent, order arose out of the chaos, before tracing the rise of that work with which the name of the British Linen Company will ever be identified—Branch Extension—a work, moreover, that only entered on its first practical success after the period referred to in the preceding chapter.

In a general survey of the banking history of the eighteenth century, whether in Scotland or in England, one of the most obvious defects was the restriction of the joint-stock banks to the capitals of the respective countries as the field of their operations. Two gallant attempts had been made by the old bank at times when it was in sore straits, but both, from several causes, were unsuccessful. Upon the first occasion, in 1696, on failing in the direct object for which they were intended (exchange

business), the branches were withdrawn in a few months. Again, in 1731, the attempt was renewed with as little success. Apparently accepting their failure in too desponding a spirit, the bank made no attempt for nearly forty years to carry to the provinces the benefits enjoyed by the capital. The Royal Bank, with singular apathy, did not open a branch until 1783, when its Glasgow office was begun, and having accomplished this, they remained quiescent for over half a century. With the foundation of branches by the large joint-stock banks, the extinction of the dependent class of private banks was only a matter of time. A house like Sir William Forbes, James Hunter, & Co. was in an exceptional position; keeping reserves of ready cash in gold, as well as notes of other banks, they had also extensive deposits with the two oldest banks (though at different periods), partly payable on demand, and partly with six months' notice; they were also, excepting the Bank of England, the largest holders of consols of any bank in Great Britain. Such a house was independent of any joint-stock bank, and could safely rely on its own resources; repeatedly, when many of their cotemporaries were borne down in the panics of 1772 and onwards, Sir William Forbes and his partners bore the strain with apparent ease. The fact of their granting a cash credit for the sum of £100,000, paid out in their own notes, to the creditors of a single company, may afford evidence of the extent of their business. But the smaller houses, who cared not to maintain independent reserves, but relied on their larger neighbours, might have read their doom when the joint-stock banks opened their first branches. They had originally been encouraged by the Bank of Scotland and Royal Bank on the supposition that business could be done with them in larger sums than directly with the public. The character of business done at the branches slowly but surely opened the eyes of the banks, to see that a safer and wider trade could be got at through them than with the help of the private bankers. It will be seen, therefore, how, during the next half-century,

the credits and other conveniences of the small bankers were steadily curtailed, until few, if any, of the older houses remained, except such as had taken the honourable course of making themselves independent.

The wondrous impetus given to various industries, through the canals, roads, and spinning-mills promoted in England and elsewhere from 1760 onwards, has peculiar interest to the subject of banking, both in that country and in Scotland. In England, from the monopoly granted to the Bank of England, the burden of provincial banking fell entirely upon private houses, who, with some honourable exceptions, were quite unable safely to supply the amount of capital required. In Scotland, on the other hand, it is from this time that the strong joint-stock banks, led by the British Linen Company, lengthened their cords in every direction north and south of the Grampians. The results as to the private firms were what could have been expected. Unfortunately for England, she did not perceive the cause of her weakness; while, by the greater freedom of Scottish institutions, the cause of weakness north of the Tweed was gradually and naturally removed. In both countries private banking was the defect. In Scotland, the expansive power of the joint-stocks effected the remedy by absorbing the private banker; in England, as the history of 1826 shews, the one pound note bore the chief burden of blame for a state of weakness rendered inevitable by the monopoly of the Bank of England.

We have already shewn how the private bankers withdrew for speculation funds which, but for the want of agencies, might have gone to fertilise the provinces. Little or no benefit to general trade accrued from these proceedings; and the only interest taken in provincial matters seems to have been to purchase corn from the farmers to be sold at the highest possible rate to the consumer; a kind of speculation not so universally profitable as might be supposed.

Just as the public mind was preparing for the establishment of the British Linen Company, the appearance of

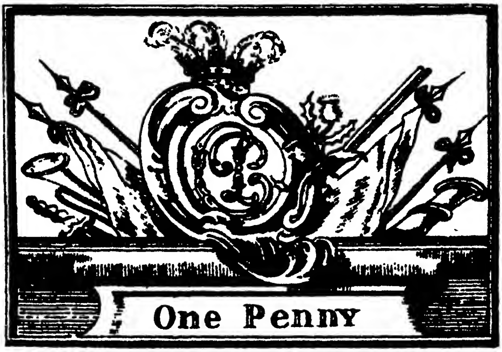
Prince Charles in 1745 stopped progress for a time and compelled the banks to close their doors, after carrying their gold and valuables into the Castle for safety. The Prince proclaimed that no alarm need be felt by the banks, as their treasure would not be touched, and he was agreeable to receive and issue their notes in payments. Finding that a deaf ear was turned to his charming, he sent to the Royal Bank demanding gold for £857 of their notes, and in a few days for £2307 more. Upon refusal a protest was taken by John Murray of Broughton, the Prince's secretary, who informed the bank that execution would follow in forty-eight hours; and under this threat the bank agreed to make payment if the Governor of the Castle would grant them access to their specie. When this was arranged, the bank authorities passed the Highland sentinels on the Castle Hill, and, advancing to the drawbridge under a flag of truce, were admitted to the Castle. At this visit they carried off £12,000 in gold, and availed themselves of the opportunity to burn £60,000 of their notes, tearing up, for want of time, a large number of others—an operation which was speedily cut short by the commander, General Guest. On returning to town, the notes received from the Prince's secretary were cancelled, along with £600 received from the Governor. Of these two sums about £1800 were 20s. notes. In a few days the trouble was renewed, Mr Patrick Smyth, a brother of Smyth of Methven, demanding from the Royal Bank £1819 in gold in exchange for notes, —£1117 more of their notes coming in almost next day. In both cases the usual protest was made, followed by the bank telling out the gold, and settling matters amicably over a bottle of wine. On 25th October an exchange was made between the Bank of Scotland and "Royal" of £4000 of their notes, and soon after, the last demand was made on the "Royal" by the Prince's servants, for £417 of gold for that amount of notes. To add to their annoyance, a forgery of their notes was mentioned to the Royal Bank, of which, fortunately, nothing seems to have come. Mr John Campbell, cashier to the Royal Bank at this time,

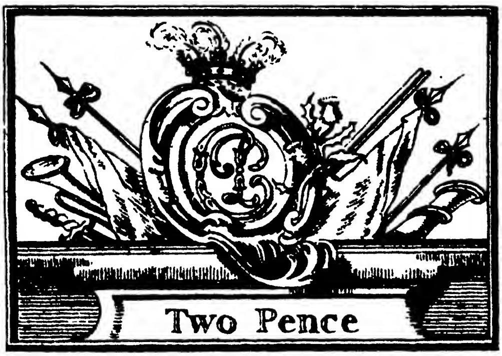
from whose Diary has been taken the foregoing story of the "1745" in Edinburgh, finishes off, evidently with a sigh of relief:—"Sent snuff and paper to Earl Breadalbane." Thursday, 14th November 1745.—"2000 foot and dragoons entered the city this morning." Monday, 18th November, —"Wrote to Lord Justice-Clerk about bank affairs, and advised him the old bank had opened shop." Wednesday, 20th November.—"Went to the Castle of Edinburgh with several of the officers of the bank, and got down all the boxes." Saturday, 23rd November.—"Got down rest of bank effects from Castle." The banks had been closed from the middle of September to above date; but it took a month or two to enable them to settle to their work in an efficient manner.

Through the courtesy of Mr John Bulloch of Aberdeen, editor of *Scottish Notes and Queries*, we reproduce opposite three facsimiles of Prince Charles Edward's paper money. Mr Bulloch speaks of eight such labels being "issued as paper money during the Rebellion. They must have been used in payment of the troops, or perhaps more probably in payment of provisions and requisites for use of the army. I possess an impression from the copper plate, which measured 9 inches by 6 inches, and remember its appearance well. It was unusually thick, and was deeply corroded." This interesting relic has been lost; but strangely, in 1830, the printing-press, rudely made of wood, on which these notes were probably printed, was discovered in the Edinburgh University Printing Office, the same house which, prior to 1806, had been occupied by the Bank of Scotland in Auld Bank Close, off the High Street of Edinburgh.[1]

With the battle of Culloden the hopes of the Jacobites were crushed for ever. Immediately afterwards, the King was approached by the Dukes of Queensberry and Argyle, the Earls of Lauderdale and Glencairn, Lord Provost John Coutts, the banker, and other notables, for the purpose of obtaining a charter for a new company, to be established

[1] *Scottish Notes and Queries*, January 1893, p. 126.


One Penny


Two Pence


Three Pence

for the encouragement of the linen trade. The time was thought opportune, as "it was considered to be of much importance, with a view to tranquillise the country, and call forth its resources, that the attention of the Scottish people should be directed to the advantages to be derived from trading and manufacturing enterprise. It was anticipated that, by affording the direct encouragement of a Government institution to the linen manufacture, it would become the great staple manufacture of Scotland, and would provide ample employment for the population; while extensive markets for the produce of this labour would be found within the United Kingdom and in the colonies, then chiefly supplied with linen from Germany."

A charter was granted, dated 5th July 1746, in which the capital was stated at £100,000, of which only £50,000 was to be subscribed for; the company having power, in addition to dealing directly in linen, "to do everything that may conduce to the promoting and carrying on of the linen manufacture," under the name of the British Linen Company.

The new bank began business in Tweeddale Court, in the High Street, and its first years and its manner of business are deeply interesting, for in them the foundation was laid of that widespreading system of branches which has given such an impulse to banking in Scotland. It is largely owing to the branch system that the poverty-stricken Scotland of 1700 has now £100,000,000 lodged in her banks, and it was by means of the note issue—the one pound note issue—that these branches were established and maintained. How often it is that the greatest advances in human knowledge are made by outsiders, who have not been trained in, nor had connection with, the particular profession which their genius has advanced! The sunburst of discovery and invention that marked the period 1750 to 1800 witnessed many examples of this fact. The spinning frame was invented in 1767 by Richard Arkwright, a poor barber; the Battle of Plassey had been won and the conquest of India begun in 1757 by a clerk, Robert Clive.

Three years later, James Watt, a maker of mathematical instruments, was beginning those experiments with steam which have revolutionised the world; and the originators of the plan whereby note issues, deposits, and cash credits were to receive the widest extension, were the partners of a linen company! Before any idea of banking was entertained, extensive correspondence was held throughout Scotland with the weaving industries. Weaving was then chiefly carried on by the lower orders, who, having little or no capital, were only too glad to work for the new company. "In a very short time accounts were opened by men in every portion of the land from Shetland to London." Material was supplied to the workmen, who were paid for their labour on returning the manufactured goods. In this way the need of small amounts of capital by a vast number of individuals was satisfactorily met.

Very early in their career an office was opened in London, and by 1764 agents had been appointed in different parts of the country, by whom bills were discounted, and to whom notes or bills were regularly sent for circulation or negotiation. The accounts for a time were kept merely in the agent's name, and not in that of his branch, so that in some cases it has been difficult to trace the exact year when business was begun. But there are records of the agents' transactions in Glasgow, Forres, Montrose, and Dundee in 1767; and gradually, as industries gave hopes of success, new agencies were opened, until 1793 when the British Linen Co. had twelve branches in full operation throughout the country—Montrose, Duns, Cupar, Wigtown, Forres, Jedburgh, Inverness, Dunbar, Dumfries, Berwick, Glasgow, and Dundee, and soon afterwards Leith, Haddington, Inveraray, Biggar, Castle-Douglas, and Dumbarton were added to the list. By these means the bank laid its foundations broadly and securely in such a manner that temporary pressure at one point might be relieved by support given at others. By its branch system the British Linen Company attained a circulation of its

conduce to the promoting and carrying on the linen manufacture."

After fifteen years active encouragement of the trade by importation of flax and manufacture of yarns and linens, the company, as already noticed, recognised the difficulty of conjoining the trade of manufacturers with the operations of banking, and in 1763 they withdrew entirely from the former and have since confined themselves to finance.

The growth of the country brought a number of banks into existence at this time. The Thistle Bank of Glasgow began in 1761, and is now merged in the Union Bank of Scotland. 1762 saw the beginning of David Watson, later J. & R. Watson, in Glasgow, as 1832 saw the winding up. The Dundee Bank and John Macadam & Co. of Ayr both opened in 1763. The former joined the Royal Bank and the latter was bought by Douglas, Heron, & Co. in 1771. The six Perth banks were of this period. In 1766 Johnston & Lawson, of the Dumfries Banking Company, commenced the business which helped to ruin Douglas, Heron, & Co. after its junction in 1771. The year 1767 witnessed the establishment of the long respected Banking Company in Aberdeen, which ran a most successful career until 1854, when it joined the Union Bank. Last of all, Douglas, Heron, & Co. in 1769 entered on that wonderful career of "banking in Air"—which in three short years was to make their name a byword for a century.

CHAPTER VI

1765-1772

CONDITION OF THE COUNTRY—AGRICULTURE—PROGRESS—DOUGLAS, HERON, & CO.—THE NOTE EXCHANGES, AND RESULTS OF THE ACT OF 1765.

> "Oh, sons of earth, attempt ye still to rise
> By mountains piled on mountains to the skies?
> Heaven still with laughter the vain toil surveys,
> And buries madmen in the heaps they raise."—POPE.

DURING the period reviewed in this chapter, and for a farther three years to 1775, the country was harassed by bad harvests and a general dearth, which also extended to the Continent. The hopelessly backward state of agriculture up to 1760 left much good land undrained and half of the arable land unploughed under the wasteful "run-rig" system, so that the population, even in good years, lived on the very margin of bare subsistence. During the fifty years up to 1765 there had been only four very bad harvests, but the ten years' dearth which followed reduced the population on both sides of the Border to extreme misery. From 1760 onwards came the revolution in farming methods, and at first many expensive mistakes were made by the proprietors. It is remarkable that all the agricultural improvements so far back as 1720 and throughout the remainder of the century were strenuously resisted by the common people. Enclosing walls were thrown down by mobs, plantations of new trees torn up or burned; the introduction of the turnip or potato was

as much feared as the Colorado beetle of a later century. Amid such discouragements the nobility and gentry of Scotland did their duty, and this democratic age may remember the fact; so that, notwithstanding many errors of experiment or inexperience, the cost of which fell on themselves, they gradually forced a better way on the dull conservatism of the populations. Along with these agricultural improvements came innumerable sanguine schemes for reclaiming land, making roads, bridges, opening mills and factories of various kinds. Some of the promoters were wealthy, many were not; all were hopeful; none had experience. Notwithstanding these movements the people were still miserably poor, underfed; like their cattle, bearing their lot with a sullen discontent which in the towns especially, needed little occasion to develop into riot or disorder. In the towns a number of different employments had begun, constructing articles of common use hitherto got from Holland or elsewhere abroad, and a large invasion of Highlanders appeared in the south ready for any opportunity of earning a living. They brought with them a taste for their native beverage, which effected a disastrous change in the national drink from "twopenny" ale to whisky; and in conjunction with the French wars, which shut out claret and permitted Spanish port, introduced the frightful orgies of drunkenness which disgraced the nation for many years. If the condition of the workers was thus unhappy, that of the middle class, though improving, was little more contented if not so wretched, and the conditions generally of both classes has to be borne in mind in considering the period, or the financial troubles which arose.

It soon became evident that the Act of 1765 had only "scotched the snake," the killing was reserved for 1772. Notwithstanding the passage of the Act, the banks and the community continued in as great distress as ever from the deficiency of coin aggravated by the necessities of a steadily extending trade. Alongside of this a wild speculation had sprung up which by its finance further increased the adverse exchange and defeated its own ends

by compelling the banks to restrict credits in order to reduce their note circulation, which was being used by bullion dealers and others to draw away coin for export to London.

The preservation of their coin reserves was a costly and troublesome operation to the banks at this time. The gold left them in small quantities but did not naturally return, being either hoarded by the country banks in wholesome dread of the new Act, or remitted South for the premium it commanded. The banks were thus compelled to send periodically to London for more, or painfully collect it from the cattle fairs, where a supply was usually to be got from the English farmers. The Royal Bank in 1766 cancelled the cash credit of the British Linen Company from a suspicion that the latter bank was collecting notes of the Royal Bank wherewith to demand gold, and friendly relations were not resumed until 1770. Through this conservative but necessary policy the notes of the two senior banks almost disappeared from circulation. The *Scots Magazine* of 1770 says, "a note of either of the banking companies established by authority, is a *rara avis in terris* seldom to be met with but in the bankers' shops in the town of Edinburgh." Thus wisely engaged in anticipating Sir Robert Peel's policy of the following century, the banks gave no ear to the vehement outcry of the speculative crew that surged round their doors. These virtuous characters were hugely indignant that their complaints were not listened to; and as month after month of the same reserved policy of the banks passed without sign of change, their wrath waxed hotter and hotter. "Their own distress, of which this prudent and necessary reserve of the banks was no doubt the immediate occasion, they called the distress of the country; and this distress of the country, they said, was altogether owing to the ignorance, pusillanimity, and bad faith of the banks, which did not give a sufficiently liberal aid to the spirited undertakings of those who exerted themselves to beautify, improve, and enrich the country."

Adam Smith's denunciation is not too strong to describe the covetous crowd who reaped their harvest of sorrow in 1772. Speculations in land, at home and abroad; improvements in agriculture to remedy a bad harvest; bogus companies in London; ventures in the Government funds; and specially building operations on the site of the New Town, then being rapidly opened up; all engaged the public mind to an extraordinary degree. "At the same time, those projectors and improvers, flattering themselves with the prospect of the immediate advantage to be derived from their speculations, launched out into a style of living up to their expected profits, as if they had already realised them."[1] The delusion that, because they were spending money freely, they must necessarily be wealthy, speedily forced many to have recourse to the ruinous circles of bills on London as a means of raising money. These the banks refused to discount; and thus thrown back upon their own resources, the spendthrifts projected the Ayr Bank of Douglas, Heron, & Co., having offices in Edinburgh, Glasgow, Inveraray, Inverness, Kelso, Montrose, and Campbeltown, under the promising motto—*Pro bono publico.* This "crude panacea" at once relieved them of their bills—lending out its credit in notes to every one who came with a bill in his hand. The proprietors of the company were specially favoured, none being sent away empty. Amongst these were representatives of six insolvent trading companies in Ayr, to whom large credits were given which were never paid, and whose debts increased with each year as larger and larger credits were granted them. The old delusion of printed notes being an asset came again into full force for the last time in Scotland. When their deposits were exhausted, the bank simply printed more notes, literally "made money," as they had promised to do, and issued it on all sides. Their first notes with unconscious sarcasm bore the subscription, "Bankers in Air; Air 6 Nov. 1769," and according to an advertisement were of the value of £1, £5, and £10, while a number for

[1] Sir William Forbes, "Memoirs of a Banking House."

one guinea were promised in a short time. Their 20s. notes read as in facsimile annexed. In a few months the notes issued exceeded £250,000, while their discounts and advances ranged beyond £1,000,000, of which the proprietors had got £400,000. This reckless folly could not last long, and the day of reckoning came soon.

Murray of Broughton, Secretary to Prince Charles and now Hanoverian spy and annuitant, got a credit of £11,000, which was never repaid. Johnston, Lawson, & Co. were absorbed plus their outstanding issue of notes (£80,000), a large portion of which had been placed—unpaid for—in "trusty hands" to be circulated. "It seems to have been a favourite topic at all the offices to endeavour not only to force circulation of the Company's paper beyond the natural limits which must always regulate and confine such operations, but also to supplant the Circulations of other Companies. In this view it appears to have been a common practice to give out to particular persons without receiving any proper security, large sums in the Company's notes to be circulated by them, the value to be returned in Bills of Exchange, Specie, or Notes of other Banks. Notes so put out generally came back to be exchanged long before the returns were made by the Circulators."

"In Sep. 1770, David Campbell got from the Cashier £5000 and £3000 under pretence of circulating the Company's notes at a Falkirk market."

Ayr seems to have been the centre of the dishonesty, as the Edinburgh office sent serious remonstrance there as to the discounting of bills at Ayr which had been refused at Edinburgh and Dumfries. The notes got for these were at once brought through to Edinburgh, and a draft on London demanded in exchange.[1]

After their vigorous but unsuccessful efforts in 1756

[1] See "Precipitation and Fall of Messrs Douglas, Heron, & Co., late Bankers in Ayr," Edinburgh, 1778, where a very full report is given of this company's conduct and liquidation.

and 1761 to broaden the system of note exchanges formally arranged for themselves in 1752, the Edinburgh banks had refused to accept provincial notes on the ground that in the absence of any means for legally enforcing payment they formed no proper security to the holder, and were therefore unrealisable. Seeing no way out of the difficulty, the Bank of Scotland and Royal Bank had no remedy but to wait the course of events, and strictly guard their own issues, which, being always convertible, were eagerly bought up by the country banks for the purpose of demanding gold. In this manner ten years of conflict and confusion had passed, the senior banks all the while being blamed for their niggardly advances, until at last the Act of 1765 gave the thorough remedy that was required. The two old banks appear to have given the Act some years to clear away the litter of notes left by 1763, but in 1770 the Bank of Scotland had the credit of re-establishing the exchanges, by advertising that on and after 20th May of that year it would pay the notes of Douglas, Heron, & Co., the British Linen Company, Johnston & Lawson of Dumfries, the Perth United Company; having three days previously given notice that it would pay those of the three Glasgow banks—The Ship, The Arms, and The Thistle. Up to this time, from 1756, they had refused to receive in payment any notes except their own, or those of the Royal Bank. This healthy action at once cleared the Edinburgh market of a large quantity of inconvertible paper which had circulated there for years.

After taking up the notes of the banks mentioned, the Bank of Scotland worked resolutely to enforce retirement of notes issued by the other banks throughout Scotland. In 1771 they compelled the Dundee Banking Company to pay £5400 of its notes in gold (91 per cent. of them £1 notes), and at the same time made demands on the Perth United Company. These proceedings which now appear so natural and necessary awoke the banks to retaliation, and the Dundee bank arranged to send £5000 Bank of

Scotland notes to Edinburgh and demand gold in return. A few months afterwards the Dundee bank had again to pay £9500 in specie to the Bank of Scotland for its notes retired by that bank. The scare of 1772 fortunately compelled them to lay in a larger stock of coin than usual, otherwise they might have been as unable to meet the bank's demands as was the Perth United Company, who had to borrow £1000 in gold from their Dundee friends to enable them to meet their engagement. Under this healthy system of exchanges the notes of the Ayr bank came in against them with merciless regularity, and had to be paid in gold, or gold's worth, Edinburgh notes, or London drafts. At all times expensive, the cost of these drafts now became destructive; and to add to their distress, the London agents, Dimsdale & Co., refused to go further. Thus reduced to desperation, the Ayr bank's agents each supplied with a packet of the company's notes, ran over the towns, fairs, and markets in the south of Scotland hurriedly collecting gold, or other banks' notes, from any one who was simple enough to take their notes in exchange.

All was of no avail. On Friday evening, 12th June 1772, a horseman from the South galloped into Edinburgh with news of the panic in London, and of the failure of Neale, James, Fordyce, & Downe, with a long list of kindred firms. The paper companies of Scotland heard his tiding with despair. In a few days the information spread, and a furious run was made upon the banks. On the 15th, Fordyce, Malcolm, & Co. stopped, to be followed next day by Arbuthnot & Guthrie; on the 24th, Wm. Alexander Sons, with several others—all Edinburgh mercantile banking houses, joined their bankrupt brethren. Douglas, Heron, & Co. do not seem at first to have been objects of public suspicion, until it was rumoured that their bills had been refused by the London bankers, when at once "the common people ran in crowds to draw specie for their notes, and on Tuesday evening the following advertisement was handed about in Edinburgh: 'BANK

OFFICE, CANONGATE,[1] June 16, 1772.—Whereas, the Branch of Douglas, Heron, & Co. have for these two days past, had an immense demand for specie from the lower class of people in exchange for notes,'" owing, it was said, to some evil-minded persons having raised sinister rumours regarding them, therefore Douglas, Heron, & Co., would pay £100 as a reward to any one who would give information as to the inventor of this pernicious report (*Scots Magazine*, 1772). The expense of this advertisement might have been spared; if paid, it had its small share in hastening the closing scene.

The Bank of England held £150,000 of the bank's paper—Dr Chambers says notes, but this must surely be incorrect, as Scottish notes were not likely to travel to London in such volume. As further aid was refused from that quarter, the Ayr bank was compelled to shut its doors, and on 26th June it issued this circular:—"AIR, *June 25th*, 1772.—The Company of Douglas, Heron, & Co., Bankers in Air, taking into their consideration the present state of the credit of the country, and the uncommon demands that have been made upon them for specie, owing to causes sufficiently well known, have come to conclusion to give over for some time paying specie for their notes. But as the country, who have received the most liberal aids from this Company cannot entertain the smallest doubt of the solidity of its foundation, it is hoped that on occasion of a national emergency of this kind, the holders of their notes will not be under any alarm; and in order to give full satisfaction to the public, they hereby declare, That they will pay five per cent. interest for such of their notes as remain in the circle, until paid, after 26th June current.—JOHN CHRISTIAN, *Cashier*." The time was past for any endeavour to conceal their disastrous failure; the Air bank was down irrecoverably. The liabilities to the public were £1,120,000, made up of £300,000 deposits, £220,000 note circulation, £600,000

[1] The bank occupied the ancient house of the Earls of Angus in the Canongate, where New Street now enters that thoroughfare.

drafts on London outstanding, and to the partners £104,000 paid-up capital. These figures do not indicate the amount of the note issue during the few bright days of the company, when it must have been much larger, as latterly it had been reduced through the note exchange, and the inability of the public to absorb it. As notes were paid off, the drafts on London had to be correspondingly increased plus charges to meet them. The total loss to the partners, 225 in number, was £663,396. 18s. 6d.; the Dukes of Buccleuch and Queensberry, with some other wealthy shareholders, being compelled to burden their estates with redeemable annuities to the extent of £457,570.

In September following the bank again faced its creditors, and reopened its offices, advertising the notes to be payable in gold, at Ayr only, and relieving holders of large notes by exchanging them for £1 notes. Again help was vainly sought; but the Edinburgh banks had already done enough (the Royal having taken up £65,000 of the Company's notes), and would do no more; while the Bank of England was equally unaccommodating, receiving in reward the hearty execration of the "embarassed bank and its friends, without a word of acknowledgement of the great sins of the embarassed bank itself." Thus they tottered on until 12th August 1773, when they went into voluntary liquidation, "leaving an amount of destitution in their wake such as Scotland had not experienced since the wreck of the Darien expedition. It is said that a large proportion of the land of the county of Ayr changed hands in consequence. For the remainder of their lives its shareholders were never done with paying."[1] On the previous day the Bank of Scotland and Royal Bank had advertised that they would pay all notes of the bankrupt firm, another wise precedent for the policy of 1857 and 1878.

The panic had acted with intense force in Edinburgh, sweeping down every private banker, except Sir William

[1] R. Chambers.

Forbes & Co., Mansfield, Hunter, & Co., and William Cumming & Sons, besides ruining many merchants and traders. Sir William Forbes records, that a "smart run" was made on all the Edinburgh banks on the Monday following Black Friday. His own office escaped easily, as it appears that the run subsided on the Tuesday, it being well known that he was outside of the circulating bills that had weakened his cotemporaries, and, further, he did not at that time issue notes of his own house. Glasgow suffered little compared with Edinburgh, which may appear strange, considering its commercial tendencies and geographical connection with the scene of the Ayr bank's operations. Evidently the Glasgow merchants were engaged in trade of a substantial character, and not being attracted by the schemes of the idle capitalists of the east, escaped being drawn into the vortex of circle bills. The following figures from Mr Boase's "Century of Banking in Dundee," show that the Dundee Banking Company had been run upon severely, and narrowly escaped a collapse:—

		Circulation.			Specie.		
1772.	Mar. 16,	£47,330	0	0	£17,729	0	0
	April 6,	37,779	0	0	11,050	0	0
	June 15,	33,828	0	0	10,967	0	0
	Oct. 19,	15,920	0	0	6,132	0	0
	Nov. 7,	16,164	0	0	4,034	0	0
	" 21,	18,812	0	0	3,881	0	0
	Dec. 5,	19,544	0	0	5,135	0	0
1773.	Jan. 30,	19,015	0	0	3,847	0	0

It is obvious that a bank conducted upon such lines as that of Douglas, Heron, & Co. could have had no hope of maintaining itself beyond a few years, even if every circumstance had been favourable to its existence. Had it come into the world twenty years earlier, it might have had a better chance of postponing the evil day; but in 1770-72 there were two remorseless agencies at work, whose existence Douglas, Heron, & Co. scarcely seem to have realised—these were the Act of 1765, and the Note Exchange system. Both proved their thorough efficiency

during the years of the Ayr bank's life. In spite of the most strenuous exertions on the part of the bank to keep out their issues of notes, the clean sweeping exchanges rapidly collected from the public the superfluous currency, and returned it against them. Here the Act stepped in to do its part with its trenchant remedy. Prior to 1765, what delays, what mean subterfuges would not have been resorted to? to delay payments, which it was not in the power of the bankers to make, and to postpone them even beyond the limits of the option clause! With Douglas, Heron, & Co. all this was impossible. "Notes payable on demand, failing which, Summary Execution," was an enactment too simple to be misunderstood, too comprehensive to be evaded; they had nothing before them but the stern alternative, "pay, or stop." It is true that the London crisis was the immediate cause of the "run" which brought them down; but that crisis had been partly caused by the Ayr bank's notes and circle bills granted to retire notes. The vast proportion of advances, whether in bills or credit accounts, or mere overdrafts, amounting in all to £1,200,000, had been paid out in notes; for, when the bank failed there were only £300,000 of deposits to £220,000 of notes in circulation. Of the remaining liabilities, the £600,000 of drafts on London had doubtless represented operations in notes, afterwards converted into circle bills, which the bank were unable to retire. Public confidence had been on their side, and for two years they were able to clear their way by these drafts on London, of which they had no means of paying even the charges for renewal as they matured. As it so happened, the reservoir of the world's commerce (the London market) was already well filled with similar paper, and the Ayr bank's contribution caused it to run over. The immediate result of this stoppage in the discount of accommodation bills was the failure of Neale & Fordyce, which naturally alarmed the Ayr bank's London agents, Dimsdale & Co., who stopped supplies; public confidence was broken, and the rest is already known to the reader.

Another important result of the Act of 1765 may be traced in the lesson taught by the failure of the Ayr bank. The original copartnery of that bank bore the names of 136 partners, amongst whom were to be found dukes, earls, landed gentry, lawyers, merchants, shopkeepers, tradesmen, but not a solitary banker. In a word, the bank was begun and managed by men who professed to know more of the business of a banker than those who had been trained to that profession. Devoid of necessary caution, and inflated with unsound theories, their inexperience led them to neglect the commonest precautions of sound banking. As in 1874, so in 1771, prices were exorbitant, while the exports had never been so high. The crash came quicker in 1772 than after 1874; an equal amount of confidence on the part of the public, and a greater amount of fraud by the City of Glasgow Bank, combining to prolong its career, and aggravate the distress when it was made public.

In both banks, however, the speculative mercantile element was the cause of the ruin, and it is interesting to note how that class remembered the lesson of 1772. In the fall of the Ayr bank, nearly the whole system of private banking merchants was dragged down; 'and from this period private bankers[1] (nor indeed joint-stock banks for nearly sixty years, to any extent) did not meddle with merchandise, while the mercantile classes as rigidly abstained from intruding into banking. A remembrance of the disasters of the Ayr bank was probably the direct cause of this change; but the firm basis upon which the note exchanges were put by the Act of 1765 was the original though unseen force.

The Act had been passed, and the provisions as to notes of less than £1 came of necessity at once into force and public recognition; but the effect of the summary execution clause, in combination with a system of note exchanges, was not for the time realised. Judging by present experience, it is probable that the majority of mercantile men were ignorant of its provisions; for no

[1] Except Maberley & Co., who failed.

case having been raised in Court to excite and attract public attention to the danger, they dealt with their note issues according to the old and lax tradition, until the blow fell; and they knew not from whence it came, or why! Nothing else can account for the evidently honest indignation of the shareholders at not receiving assistance from the other banks. They were so ignorant of banking principles, that they did not know that they had erred, much less how; for, as their circular shews, they attributed their failure to a national distress of some kind, for which they could not be held responsible.

Speaking generally, this was the last great effort in Scotland of the fallacy that notes in the banker's till are money—that printed paper is as good as gold, and could be freely treated as an asset, without considering its nature as a liability when issued to the public. The real theory of the matter may not have been profoundly established, but the experimental stage had passed, and gradually the writings of Adam Smith, the Act of 1765, and the recollection of the Ayr bank, from this period onward, in so far as they proved that bank notes were dangerous in unskilful hands, each did their part in placing Scottish banking on a firmer and more honourable foundation.

Viewed in its connection with the train of events just narrated—such as the establishment of the note exchange system in 1752, the British Linen Company new branches, the stoppage of the option clause, and the enactment of summary diligence in 1765—the one pound note appears to have been in a transition state during these thirteen years, emerging in a capacity wholly distinct from that which it occupied at their commencement, but a capacity which, nevertheless, rightly understood, strikingly indicates the increased wealth and prosperity of the country. So deep had been the poverty of Scotland during the first half of the century, and so small the amount of acccumulated wealth, that even their proverbial honesty could scarcely have ameliorated the condition of our ancestors, had the

note issue not stepped in to occupy the place of capital. Ignorant as they may have been of the modern philosophy of paper money, the Scotsmen of the eighteenth century keenly appreciated the opportunities which their banks placed in their way. Their credits through their notes were to them capital, not currency merely, but a fund of capital with which they could buy and sell and realise a profit on their transactions. Conveniently enough, notes did serve as a currency, but their primary nature, in the opinion of the time, was that of capital. In our economic times it appears a mere till-money delusion; but prior to 1760, before the dire necessity for such an expedient had passed away, it was no delusion, but a powerful and practical medium for the production of wealth. As this became evident to the general public, and Government continued to neglect the coinage, the invariable riot of excess occurred in the paper money, leading to the stringent action of the old banks, and, subsequently, to the legislation of 1765; so that when Douglas, Heron, & Co. began business it was discovered that the necessity for a note capital had disappeared, in consequence of the country's new-found riches, which now formed its capital, and only required the aid of the notes as a currency for its transmission and distribution. In short, from 1700 to 1760 the note issue was primarily capital to the nation, while it also served as a currency; and from 1760 onwards its proper function was that of currency, so far as the public were concerned—for, as will be seen, it was, and ever has been, equal to capital to the banks.

In the absence of statistics it is impossible to prove with certainty another effect of this transition in the position of the note; but from the activity displayed by many of the banks subsequent to 1765 or 1770, it is evident that some unseen causes drove them more completely into a channel of business which hitherto they had not taken advantage of. Up to this time the profits of banking had been largely made up of interest on the circulation of notes. The return from investment of the

partner's capital was never large, because the capital was invariably small, only a few of the larger banks having much to boast of. These two items, along with exchange operations and speculative profits, produced the dividend; for deposits during the first sixty years of the bank's existence were scarcely reckoned worth the trouble of collecting, inasmuch as interest had to be paid to the depositors, leaving only a margin of profit in the banker's hands, whereas with a good note trade the whole profit was retained. With the transition from capital to currency, this one-sided system of banking came to an end; and it would be interesting to ascertain the fluctuation in profits which must have arisen between 1760 and 1780, when bankers saw their note circulation going out of demand, or shrinking in the action of the note exchanges. There is little doubt that fluctuation did exist, and that it was one of the causes which led bankers to increase their facilities, by opening branches and taking in more deposits, for the purpose of recouping themselves for the loss of the "note-capital trade," by working upon a still greater fund than they hitherto had experience of.

In the succeeding chapters an account is given of this new departure in banking; and it is worthy of notice how, for a time, the banks hardly perceived the opening made for them, but endeavoured (and as events have proved wisely) to meet the changed condition of affairs by an increase in their capital, until the lapse of years gradually revealed to them the extraordinary capacity of the Branch and Deposit systems worked in combination with their Note Issues.

CHAPTER VII

1773-1793

EXPANSION OF SENIOR BANKS—NEW JOINT-STOCK BANKS—EFFECTS IN GLASGOW OF THE PEACE OF 1782—BANKING COMPANY IN ABERDEEN—SIR WILLIAM FORBES & CO.—DUNDEE BANK—CRIME.

"The endurance of human institutions is dependent upon their imitation of the works of Nature, whose plans are ever free, yet deeply laid and strong."—*The Pyramids of Gizeh.*

THE nine years between 1774 and 1783 were years of continued conflict to the British Empire. The Independence of America; wars with France, Spain, and Holland; tumult and rebellion in Ireland; and the partial conquest of India—had all to be fought out, with their varied results of defeat, victory, and accumulation of debt.

At no previous time had Britain so well displayed her tremendous vitality and resource. Driven out of her magnificent heritage in North America by the folly of her statesmen and the imbecility of her generals, she accepted the inevitable with equanimity, and after sweeping her continental rivals from the seas, turned with resistless energy to Hindustan for new glories and responsibilities.

Notwithstanding her engagements in these gigantic movements, Britain was little affected by them internally; secure within her shores from foreign invasion (though not from its dread), she experienced none of the misery which war inevitably brings upon the scene of its action. In comparison wfth the first half of the century, Scotland enjoyed even greater tranquillity than England. An out-

let had been found for the warlike spirits of the north, in the formation of the Highland regiments, and a population which had been at feud with the settled parts of the country for centuries, found congenial employment in other lands, leaving their native country in a condition of political quiet it had never before witnessed. When after the lapse of years the survivors of the Highland Brigade returned to their mountains and glens, it was no longer to live by raiding the Sassenach. Local antipathies had disappeared; *omne solum patria est*, the world had been the scene of their hardships and of their conflicts, not less wide was the field of their sympathy and glory. Wherever Britain's battle had been fought, amid the forests of America or the burning plains of India, their comrades lay silent but not forgotten. Thus in the mightier struggles of the Empire, clan disputes melted away, and the once restless reivers of the Highlands were converted from their Jacobite strifes to their rightful place in the history of Great Britain. By this change in her national life Scotland was materially benefited; for though the process was rough and costly, yet in the end it achieved the unity of Celt and Saxon. Without losing their individuality, the two were welded into one nation, and prepared to embark on the advancing tide which distinguished the latter half of the eighteenth century.

Naturally Scotland was less directly connected with these wars than England, the north country being left to pursue her own ways in a quiet back-eddy out of the whirl of imperial politics. Of this quietness one of the Edinburgh banks was not slow to avail itself. Taking advantage of the clearance effected by the crisis of 1772, the Bank of Scotland adopted a more progressive policy for the purpose of filling up the blanks caused by the previous failures. The double purpose would be served, of giving an extended credit, and at the same time preventing the establishment of these insecure firms which might spring up from the necessities of particular localities.

The increased responsibility they were fortunately able

to face. The exchange on London in December 1773 had not been so near par for fifteen years, the rate for bills at sight being only ¾ per cent. 1772 had not found the big banks asleep; they were prepared with considerable stocks of gold to meet the crash which they saw must inevitably come, their demands upon the country banks for exchanges of notes having doubtless greatly increased their specie reserves. Whenever Douglas, Heron, & Co. were off the scene, gold became more plentiful, old defaced coin being bought by the Bank of Scotland at £3. 16s. 6d. per oz., and sold by them in London at £3. 17s. 10½d., leaving a fair profit after paying expenses of transit. The Dundee Banking Company had collected £16,477 of specie to meet possible demands, although their usual stock had seldom been over £2000 since they recovered from the scare of 1765, when they had thought it prudent to purchase £9000.

The opportunity was not to be missed, and accordingly in 1774 the old bank led the way by increasing their capital from £100,000 to £200,000; and a few months later, taught by the British Linen Company, they opened branches in Dumfries and Kelso. In the following year, 1775, Ayr and Inverness were chosen, and some years later Stirling, Aberdeen, Dunfermline, Haddington, Perth, and Kirkcaldy. At the same time they took the entirely novel step of publishing a "Quarterly and Annual State of Conduct."

By these means deposits accumulated in such increased volume, that the bank made public announcement that loans would be made on heritable property. Had any agreement been come to with the Royal Bank, so that the same wise policy of extension might have been adopted by them in conjunction with the British Linen Company, it would have had a marked effect in reducing the number of new banks which, attracted by the strides that were being made in the spinning and weaving industries, came into existence in the following ten years. But seven firms in Edinburgh and four in the provinces had all begun, and were issuing their notes, good or bad, as events showed, before the Royal Bank made any move towards meeting

the wants of the time. The provincial banks referred to were those of Hunters & Co. at Ayr, successfully launched in 1773 by Mr James Hunter, the former cashier of Douglas, Heron, & Co.; the Stirling Banking Company, in 1777; the Commercial Bank of Aberdeen, in 1778; and the Paisley Bank, in 1783.

In the latter year the Royal Bank increased its capital from the original £111,347. 19s. $10\frac{5}{12}$d. to £150,000; while in the following year, and also in 1780 and 1793, further additions were made, raising the total capital to £1,000,000 fully paid, of which £288,652 were entirely out of profits —a proof that their limited area of operation had not affected their prosperity.

The first increase in 1783 was probably made to meet the supposed requirements of the Glasgow branch, opened in that year; and the doubling of the capital in the following year, to meet its actual requirements.

These actual requirements have to be considered in the light of the great event which closed the previous year of 1782. The United States of America had attained independence after an exhausting war of seven years. The war opened in 1775 with absolute disaster to the immense tobacco trade of Glasgow, causing a serious set-back in the prosperity of the town. But the men who had won so practical a monopoly in one trade did not sit lamenting, and it is from this period—about 1780—that the numerous industries which have made Glasgow the commercial metropolis of Scotland date their chief advance. The tobacco trade was never fully recovered, but its loss was a blessing in disguise, for the energy which it absorbed was diverted to other and better occupations. The sugar trade with the West Indies, cotton spinning, and calico printing were opened up; and lastly, from 1781 to 1785, James Watt, the Clyde's greatest son, was obtaining patents for those discoveries in the application of steam which have changed the face of the world. The peace of 1782 therefore found Glasgow ready for a new advance, and waiting only for some form of financial steam, to "flourish" as she had

never done before. In the city's pre-banking days following the Union, when the tobacco trade began, the tobacco lords by their immense accumulated wealth and other large companies gave many banking facilities, and doubtless continued these in measure down to 1775, when the war destroyed much of their trade. The ensuing four years was a period of heavy loss, and the new trades entered upon necessarily involved the absorption of a large capital sunk in mills and machinery, differing materially in this respect from the old, where the capital was not fixed, but to a large extent realisable from sale of the stocks of tobacco. There was therefore a more urgent need for financial assistance in the city than under former conditions, and this fact probably explains the banking expansion in the west at this period, and the opening of its first branch there by the Royal Bank. That they did not anticipate a rush of business is evident from the simplicity of their preparations: their small shop in Hopkirk's Land, on the east side of the High Street, costing only £2. 10s. per annum for rent. The record of their first agent gives some indication of the nature of business they expected. Beginning life as a herd-boy, he had successively worked as a weaver, a clerk to a silk mercer, and was in 1783 a linen-draper in a shop adjoining the new bank office.[1]

The race between the Bank of Scotland and Royal Bank to enlarge their capital is exciting, and appears as follows:—

	Bank of Scotland.	Royal Bank.
1773	£100,000	£111,347
1774	200,000	111,347
1783	200,000	150,000
1784	300,000	300,000
1788	300,000	600,000
1792	600,000	600,000
1793	600,000	1,000,000
1794	1,000,000	1,000,000 fully paid.

[1] "Banking in Glasgow during the Olden Time." The same work states that the old Tannarie Company held £40,000 of deposit money in 1765, while several other large concerns took in money on deposit.

The capital of the old bank was not fully paid, which may be accounted for by their having larger deposits and therefore not requiring so large a capital as the Royal Bank, whose Glasgow connection at once involved it in considerable advances. The Bank of Scotland did not open an office in Glasgow until 1804, although a House of Commons Report gives 1793 as the correct date.

Any hope of co-operation between the two senior banks at this time was not aided by sundry pamphleteers, who, with their bitter pens spread rumours of the old bank's plots to obtain an influence in the management of the Royal Bank by placing its nominees at the board of direction. One paper in the Advocate's Library—"Bank Disputes, Edinburgh, 1778"—after stating that £87,800 of the Royal Bank stock had been transferred during two years up to 1778, insinuates that the old bank was the enemy who desired to sow the tares in its neighbour's field. Another blow is struck at the Bank of Scotland regarding its new stock, which, though issued at £83. 6s. 8d., rose in less than a year to £125. The pamphlet, from the intimate knowledge of the Royal Bank's affairs, was evidently put out by friends of that bank as a *ballon d'essai*, with the view of injuring the old bank and a certain private banking firm which had offended the Royal.

The same movement which led the "Royal" westward following the peace, led to the erection of several other banks across the centre of Scotland. The Merchant Bank of Stirling in 1784, the Greenock Banking Company of 1785, the Falkirk Banking Company of 1787, the Paisley Union Bank of 1788, the Dundee Commercial Bank, and the Leith Bank of 1792, are all of this period. The small note issues of these provincial banks were specially large, several of them ranging up to 90 per cent. of their whole circulation, while that of the Edinburgh banks was about one-half.

The renewal of these semi-private banks, with their small partnerships and unguarded issues, was not viewed

with complacence in all quarters. One writer in the *Bee* of 1792, referring to the note currency of "this critical period," says: "I call it critical, because the unlimited right of setting up private banks, their multiplicity, the obscure characters and doubtful credit of some of the bankers, afford a favourable opportunity for the directors of the chartered banks to offer themselves as doctors to this political malady." After presuming that the directors would simply recommend "amputation," and thus leave the country not merely with a bad leg, but with no leg at all, the author considers that "of all the evils that could befall Scotland, that of reverting again under the power of the chartered banks would be the worst." Allusion is no doubt here made to the friction which continued in greater or less degree from 1780 to 1810, between the old banks and the new bankers; and it was only as the old banks spread their wings over the provinces, that they recovered their ascendancy and removed the reproach which the writer in the *Bee* attaches to them. He foresaw dimly the necessity for branches, or, at least, for provincial banks of a sound character, using the homely argument—"In truth, bankers, like bakers, are not of great use unless *near the seats* of commerce. Edinburgh might as well pretend to issue loaves for all Scotland as bank notes. What benefit would an Aberdeen merchant derive from the Edinburgh banks, if he wanted a bill that had a short time to run discounted on the spur of his business? Or how could an Angus farmer procure credit for a few months, for the purchase of cattle to eat his grass, or of lime to improve it?" "The very expense of postages in correspondence with Edinburgh would consume half his profits, beside the chance of him and his sureties being unknown at such a distance."

The Bank of Scotland began its office in Aberdeen a few years prior to the publication of this article, a fact of which the writer may not have been aware when he chose that town as one of his examples. That he was aware of some branches being opened is obvious, for a little further

on he accuses the old banks of going into the provinces solely for the sake of cutting out the new banks. "Suppress the other banks, and they will soon shrink back into their own offices in Edinburgh," a prediction which has not proved to be correct. A new profit was found in the branches, of which the small bankers had no experience. In their neglect of the deposit system these new provincial bankers were, somewhat after the fashion of Murdoch & Co. in 1754, relying for profit on their note issues. The Dundee bank gives an example of this. They did not begin formally to accept deposits until 1792, the same year in which the article in the *Bee* was penned, a departure which they possibly learned from the British Linen Company, who, as early as 1767, had an agent in their town, Mr John Neilson, who discounted bills, retired notes, and collected deposits. That the other country banks were banks of issue but not of deposit, is also shewn by the same writer, who does not see why the whole profits of the note circulation should be confined to Edinburgh. In his concluding remarks he draws a dismal picture of his country, if, by any turn of affairs, it should ever be subjected to a banking monopoly, and hopes "that our Parliament is too faithful to its trusts to deliver a country into the merciless paws of monopolists of any kind." Had he lived to see the sixty years following 1845, he might have known that even the evils of a monopoly are mitigated by competition amongst those who enjoy it.

Advantage may be taken of this Aberdeen correspondence to give a few details as to the Banking Company in Aberdeen, founded in the beginning of 1767, and which at this period may be taken as a fair type of a successful provincial bank, being under careful management. The Earl of Erroll was governor, and amongst the directors were Sir Archibald Grant of Monymusk, Thomas Buchan of Auchmacoy, M'Lean of Coll, and others. The opening clauses of their charter give a characteristic description of cotemporary troubles.

"We the persons after named * * having taken

into Consideration the great Inconveniences which for some years past, the northern Parts of Scotland have laboured under, from the Scarcity of all Kinds of Specie; and at the same time, considering the imminent Danger that all Ranks of People therein are exposed to, from the extensive and industrious Circulation of a Variety of **Bank-Notes** from distant and remote Parts of the Kingdom issued and signed by People for the most part totally unknown in this Part of the country; **And** being desirous to prevent the alarming Consequences to which the Country is exposed by so large a Circulation of Notes with the sufficiency of which we are generally unacquainted, **Have Resolved** to establish a **Banking Company** in *Aberdeen* upon a solid, creditable and respectable Footing, to be at all times provided with a sufficient Fund of Specie to answer the Exigencies of the Country, and which we apprehend will also tend to check and repel the Circulation of so great a Variety of unknown Bank-Notes, with which the Country is presently overrun."

At one of their earliest meetings the directors resolved to settle a plan of management, and *to issue notes as soon as they could find it convenient.* The heritors of the county were requested to accept no notes except those of the new bank. No compromise was to be held with any bank acting in opposition, till such bank first withdrew their agents from the counties of Aberdeen, Banff, and Kincardine. The Thistle Bank of Glasgow had an agent in Aberdeen in 1769 circulating its notes, who so incurred the wrath of the new bank that they resolved to continue the "war with resolution" until the Thistle Bank's agent be forced to withdraw. A special meeting was called in April 1780, to "record the Company's sense of the flagrant breach of good faith" of Francis Leys, a merchant in the city and a director of the Company, who "then avowed his intention to act as superintendent" of the branch of the Bank of Scotland, opened in Aberdeen in that year. The company "bitterly complain" of the

Bank of Scotland for abandoning the neighbourhood so long [since 1733], and now returning to ruin the fair prospects which the energy of the new bank had reopened. In 1794 the Royal Bank stopped a credit enjoyed by the Aberdeen Bank, which transferred its agency to Sir William Forbes & Co., thus commencing the long connection which terminated in the junction in 1849 of the northern bank with Sir William's successors, the Union Bank of Scotland. It retained its Aberdeen name, and its notes were dated from Aberdeen until 1854. These few details serve to shew the strong local spirit which animated the Aberdeen bank, a spirit not yet dead in its preferences for local institutions in the Granite City. They also shew the continuation of the old idea which regarded the note circulation as the true banking fund from which profits could chiefly be expected. The bank was wisely and successfully managed for many years, paying fair dividends and accumulating secret reserves which from time to time were added to the shareholders' capital, until about 1839 the bank's credit suffered a collapse from which it had not time to recover before the proposals of the Union Bank ended in its absorption. Locally, much mystery existed as to these losses. It is believed they were due to the mismanagement and carelessness of the cashier, though his conduct was commonly characterised by more serious charges. In 1838 he had been reprimanded by the directors for signing draft forms in blank and leaving these in charge of a teller. No loss seems to have been discovered until the following year, as a dividend of 7½ per cent. was paid for 1838 and 1839. In April of the latter year the capital was ordered to be raised from £250,000 to £300,000 by application of £50,000 from reserve (more than three-fourths of this capital had been added from accumulated profits!). If the directors were unsuspicious of their cashier, evidently the public were not blind, for the deposit money of £504,000 in 1836 fell to £439,900 in 1837, and to £358,000 in 1838. On 1st June 1839, the cashier

retired after fifty-three years' service, receiving from the annual meeting, at the instigation of the Right Rev. Bishop Skinner (grandson of the author of "Tullochgorum" and "The Ewie wi' the Crookit Horn"), a vote of thanks for "his long, faithful, and valuable services." Immediately thereafter enormous losses came to light. Large advances made without directors' sanction, and a mysterious "robbery account 1838," are referred to in their reports. It was believed that several of the signed blank draft forms above named had been stolen and filled up for large amounts, and on presentation had been paid by Morrice, though concealed from the board. In 1843 a special report by directors was submitted to the partners, under which, from losses by the robbery, fall in Bank of England Stock, and bad debts, the capital was reduced to £50,000—a total loss of £250,000. By a call the capital was soon raised to £100,000, and in the ensuing two years (1844-45) good profits were earned and a new reserve account was begun. The passing of the Act of 1845 was made the occasion of the following hopeful paragraph in the Annual Report in October of that year, which also reveals cotemporary estimation of the restrictive clauses of the Act:—"This Act will afford a most influential advantage to all the existing Banks established in the Country, as by it they will now have the sole power of issuing Bank Notes, and in this respect be protected from the competition arising from the starting of new projects. So far, therefore, the Act is of great consequence to the future prospects of your Company." In this year the market value of the bank's £5 shares was £7. 10s., and some new shares were issued at £7—a premium of £2. Throughout all the bank's troubles no doubt was ever cast upon its note circulation, which maintained its good credit up to the junction with the Union Bank in 1849-54.

Returning to the condition of Scotland in the last quarter of the eighteenth century, there is a want of definite information as to this period—abundance of pamphleteers with their generalisings and theories,

but few facts. No Government returns existed in those happy days to harass the circulation clerk or delight the currency doctor. Were it not for the "Memoirs of a Banking House," by Sir William Forbes, and Mr Boase's invaluable statistics of the Dundee Banking Company, there would be so little reliable information that the Dundee banker's hope may be echoed "that the Bank of Scotland, the Royal Bank, and the British Linen Company may some day be induced to have prepared and printed for general information a similar report of the amount of business they have annually transacted at their head office and at their several branches. When they do so they will confer a very great favour on the community, for they will supply a larger amount of information respecting the commercial progress of Scotland as a whole, and of its several districts, than any other parties are able to afford." Falling back upon "A Century of Banking in Dundee," a few particulars as to banking in that city may throw light on the estimation in which one pound notes were then held, as well as on the ideas the Dundee folks had as to the proportion of cash assets and capital to liability.

The second edition of the work, published in 1867, is throughout its 579 pages an invaluable *repertoire* for banking study. Though chiefly concerned with an elucidation of banking in Dundee, the author includes a wide range of cognate facts and incidents in his notes ranging from 1371 A.D. down to 1864. Not less interesting are his reflections on the facts so collated, which, coming from an Englishman, have a special interest of their own. His father came from London in 1802 to assist in tracing a heavy loss suffered by the Dundee New Bank in that year. After nearly forty years' experience of banking in Dundee, and with full knowledge of the system of note exchanges, he thus reviews the long series of statistics on note circulation which his work contains:—"The amount of notes in circulation bears no ascertainable proportion either to the extent of business of the bank of issue or to

the sum total of the notes issued by it. The wants of the community in respect to a circulating medium most clearly regulate the amount of the notes issued that will remain out, and consequently it varies from week to week according to the season of the year, and from year to year according to the briskness of trade. The result shews the groundlessness of the alarm of those who are troubled with the idea that a bank of issue, though bound to pay its notes in gold, has the power to deluge a country with its paper money." In proof of this, it is shewn that from 1839 to 1864 the bank annually retired through the exchanges their notes for £1,525,000—while their circulation shewed an average of £35,000 only.

Mr Boase points out how the deposit system did not settle down into an established fund until about 1792, so that the eighteenth century may best be distinguished in a banking sense as the Note Period, in distinction to the nineteenth, when Deposits formed the great banking fund.

In the latter respect, France may be said to be nearly a century behind Scotland in this use of a deposit fund. The departmental banks founded after the return of the Bourbons in 1815 had a banking fund composed of capital *plus* note circulation, the actual deposits up to 1848, when their power of issue was absorbed by the Bank of France, not amounting even to the total capital. Even at this date (1910), owing to the small use made of cheques in provincial France as compared with Britain, the Bank of France has a note circulation of over two hundred million pounds sterling against deposits (public and private) of about thirty millions sterling and a capital of £7,300,000. To secure so large a note issue the bank carries a heavy coin reserve of £160,000,000 to £180,000,000 sterling, which diminishes the profit derived from its note circulation. From several causes, however, this does not seem adversely to affect French commerce. The natural fertility of France, its power of self-supply, the frugality of its people, and its comparative freedom from the demands of a world-wide commerce, all

Statistics of Dundee Bank.

(COMPILED FROM "A CENTURY OF BANKING IN DUNDEE," BY MR G. W. BOASE.)

Year.	Capital.	Deposits.	Total Note Circulation.	Amount of One Pound Notes.	Per cent. of £1 to Total.	Gold, Silver, and Mixed Notes.	Remarks.
1764	£1,260	None.	£30,395	£22,066	73	£2,826	The amount of one pound notes increased when the Act of 1765 came into force, smaller notes being then declared illegal. In that year there were £6000 of 5s. notes current, so that notes over £1 only formed 5 per cent. of the circulation.
1765	1,260	"	33,803	26,072	77	2,808	
1766	3,480	"	34,503	28,526	82	4 257	
1767	5,220	"	31,980	31,196	97	9,911	
1768	5,655	"	32,496	31,524	97	3,689	
1769	6,090	"	33,524	32,091	95	3,783	**Gold, etc.**- The actual specie included in this head was high in 1772, 1794, and 1797, all years of panic.
1770	6,960	£8,562	27,482	25,476	92	3,100	
1771	6,880	None.	30,192	28,494	94	2,453	**1793.** -The sudden bound in the *notes* this year is remarkable, as deposits were first begun to be regularly received in 1792.
1772	6,880	"	43,652	39,425	90	18,296	
1773	6,880	"	23,367	22,255	95	4,212	
1774	6,880	"	27,670	26,961	97	2,848	**1800.**—Panic at close of year 1800. £9000. 5s. *notes* reduced the average, shewing how promptly the public would imitate America in its small note issues, were they allowed. Notes of £1 and under were 83 per cent. of total. Several of the averages after 1810 include guinea notes.
1775	6,880	"	35,876	33,928	94	4,177	
1776	6,880	"	39,932	38,174	96	4,321	
1777	6,880	"	42,862	39,885	93	4,677	
1778	8,640	"	46,798	43,158	92	9,999	While deposits—capital and cash were all increased, notes maintain comparative uniformity over 100 years. The highest circulation was in 1800, £84,908, consisting of
1779	8,560	"	37,909	35,349	93	9,943	
1780	8,560	"	40,346	37,241	92	7,798	
1785	10,700	"	55,416	50,927	92	8,395	
1790	21,400	"	43,407	39,793	91	9,321	5s. notes £325 11 0
1793	21,400	£55,769	70,288	62,213	88	9,938	£1 " 61,317 0 0
1794	31,637	48,810	50,254	45,339	90	13,608	£1, 1s. " 5,705 0 0
1795	31,637	73,514	69,064	61,724	89	8,359	£5 " . . . . . 12,370 0 0 £20 " 5,160 0 0
1800	31,700	119,385	60,915	42,073	69	18,646	£84,068 0 0
1810	35,725	337,204	58,473	47,555	81	11,273	
1820	16,379	332,464	32,217	21,777	67	9,835	caused, probably, by high prices through war expenditure and restriction of cash payments, though probably also due to their notes circulating regularly in north of England, where they were taken in large amounts.
1830	25,200	419,580	26,316	17,050	65	4,121	
1840	60,000	501,098	31,232	21,912	71	13,770	

aid the Bank of France in these truly national and comprehensive methods by which it extends its facilities to the smallest traders at its 480 branches at rates which are the envy of Britain for their equality during long periods of years. The work of the bank has been supported since 1848 by a number of non-issuing banks, some now of the first magnitude, twelve of them having a total of nearly £200,000,000 sterling of deposit money.

The notes of provincial banks found their way to the capital with such rapidity that in the first eighteen months of the Dundee bank's existence £55,000 of their notes were paid by their Edinburgh agent, Mr Fyffe, a sum which so distressed the bank to pay that in 1765 they refused to continue the retirements, apparently in the hope that they might remain in circulation. The Act of the same year stopped this dream, as the notes were sent through to Dundee and presented there, until the bank seeing that nothing was to be gained, again resumed its Edinburgh retirements in 1766. For many years thereafter a sum of notes, gradually increasing to three or four times the amount of the whole circulation, was yearly paid in Edinburgh alone.

The year 1788 was one of great scarcity of money, London bills standing at a high premium in consequence of dull trade and numerous bankruptcies in the distillery and corn trades. The distress had really begun in the previous year, a slight run having been made on Sir William Forbes, James Hunter, & Co.'s bank, owing to a loss they made with Mr Fall of Dunbar. This firm's guinea notes fell nearly £6000, a decrease more than made up by the rise in large notes, caused no doubt by the wants of the mercantile classes, who felt severely the need of advances to carry them on.

1789 was little better for the Dundee bank, pressing wants compelling them to bring specie from London by land, a very expensive means of transit. Hitherto the banks had used the Berwick smacks, insuring the cargo during the winter months only, and taking the risk from

April to October in each year; but the dangers of privateering now compelled them to abandon this comparatively cheap and speedy transit, and resort to the slow heavy waggon, at a cost of about 1 per cent. for silver, with ½ per cent. to the London agent for collecting it. Adding to this another ½ per cent. over both metals for carriage, the total cost was £1. 8s. per cent. on a mixed remittance of silver and gold. Gold alone usually cost from ½ to ¾ per cent. for carriage; but in times of scarcity, or under an adverse exchange, a commission had also to be paid for its collection, the bullion points in the exchanges of all countries being then necessarily much wider apart than now, when telegrams and cheap railways minimise time and outlay. In 1792 the Dundee Commercial Bank began business, and as it employed agents to extend its notes, it succeeded within a year in running out over £24,000 of notes in Dundee, Glasgow, Paisley, and Forfarshire. It came to an end in 1802.

A satisfactory addition to the circulation of the country came into existence on 1st January 1782, when Sir William Forbes, James Hunter, & Co. issued their first notes. Had all the bankers of Scotland imitated the example of this house and established a sound business before issuing notes, the roll of failures would not have reached its present length.

Sir William Forbes states that he and his partners were induced to take this step by the restrictions, and possibly the jealousy, of the Royal Bank, who had begun to look upon private bankers not only as rivals, but as an unsafe element in the banking system of Scotland. In this they were undoubtedly correct, for most of the private bankers depended entirely upon the two senior banks in times of trouble. Unfortunately, the Royal Bank cannot have been fully aware of the resources of this the oldest of the private banks, for, in pursuance of their decision, they intimated to Sir William Forbes that any deposits he might in future have with them would have to be at a much lower rate of interest, otherwise his account would

be closed on 1st July (a Sunday)—thinking, as Sir William says, that he would have no resource but to comply with their desires. "This measure, which we could not but regard as ungenerous on their part, led us to consider in what manner we might contrive to render ourselves independent of them altogether;" and after consultation on the matter, "we formed the bold resolution of issuing a few notes ourselves of the nature of bank-notes by way of experiment, for which we thought our credit and character in the world sufficiently established." It was resolved that no agent should be employed to push the notes, and that if any customer intimated a preference for notes of the joint-stock banks, he was to be at once accommodated with what he desired. Notice was given to the Bank of Scotland and the Royal Bank, with intimation that the notes would be taken up once every week, or oftener, if desired. The banks replied, that they would receive the notes in payment, but would expect that exchanges would be made every day, which was agreed to.

After so much forethought it is amusing to read that, falling into the error of the Royal Bank, they had dated their notes on Sunday, 1st July 1781, a circumstance that caused the people of Edinburgh to be "much tumbled up and down in their minds." The notes were called in and burnt, and a new plate engraved, dated 1st March 1782.

At first only guinea and five-pound notes were issued, the first amount printed of the smaller note being about £55,000, while between 1782 and 1789, £519,330 were printed, a quantity indicating the extensive circulation and wear the notes received before they found their way back to the bank. Twenty-shilling notes were not circulated until 1st June 1798, when £45,000 were printed.

The table annexed exhibits the bank's circulation for some years after the first issue in 1782, distinguishing between notes of £5 and upwards and one pound or one guinea notes:—

Statistics of Circulation

OF SIR W. FORBES, JAMES HUNTER, & CO., FROM 1782 TO 1827.

Dates.	Total Circulation.	Guinea Notes.	20s. Notes.	Total of Small Notes.	Percentage of Small Notes.
1782, Jan. 1 .	9,900	Not shewn	None	Not known	...
1782, „ 14 .	15,100	8,175	„	8,175	53
1782, „ 28 .	26,800	Not shewn	„	Not known	...
1782, Feb. 7 .	37,900	„	„	„	...
1782, Apr. 27 .	48,300	23,400	„	23,400	48
1782, May 28 .	60,500	32,700	„	32,700	54
1782, June 28 .	58,900	34,300	„	34,300	58
1782, July 31 .	63,300	55,800	„	55,800	87
1782, Nov. 20 .	84,600	44,300	„	44,300	52
1782, Dec. 31 .	82,750	51,600	„	51,600	62
1783, June 23 .	81,270	51,270	„	51,270	63
1783, Dec. 10 .	89,060	55,360	„	55,360	62
1784, June . .	110,770	68,970	„	68,970	62
1785 . . .	99,400	61,200	„	61,200	61
1786 . . .	96,100	57,900	„	57,900	60
1787 . . .	94,100	58,700	„	58,700	62
1788 . . .	100,700	52,800	„	52,800	52
1789 . . .	90,500	60,700	„	60,700	67
1790 . . .	101,200	62,900	„	62,900	62
1793 . . .	94,100	57,700	„	57,700	61
1795 . . .	99,800	58,400	„	58,400	58
1797, Jan. 1 .	115,200	63,900	„	63,900	55
1797, March 1 .	84,300	51,100	„	51,100	60
1797, „ 23 .	63,900	41,300	„	41,300	64
1797, April 15 .	48,500	31,800	„	31,800	65
1797, „ 17 .	47,200	29,800	„	29,800	63
1797, Aug. 8 .	93,000	51,300	„	51,300	55
1797, Oct. 27 .	108,100	63,300	„	63,300	58
1799 . . .	136,400	43,880	36,620	80,500	58
1800 . . .	142,600	Not shewn	separately	67,270	48
1801 . . .	192,300	„	„	75,460	39
1803 . . .	169,700	38,400	52,800	91,200	54
1805 . . .	207,265	38,955	57,020	95,975	46
1807 . . .	225,444	37,464	71,515	108,979	48
1809 . . .	220,700	29,505	72,650	102,155	46
1810 . . .	251,400	52,815	57,730	110,545	44
1811 . . .	210,525	47,670	58,720	106,390	50
1812 . . .	244,440	Not shewn	separately	107,210	44
1813 . . .	170,028	39,123	44,980	84,103	49
1815 . . .	142,000	Not shewn	separately	80,500	57
1816 . . .	172,351	„	„	84,100	49
1817 . . .	153,920	„	„	77,300	51
1818 . . .	208,000	„	„	104,720	50
1820 . . .	211,312	19,656	85,086	104,742	49
1822 . . .	182,785	14,427	85,556	99,983	54
1823 . . .	210,000	13,860	89,985	103,845	49
1824 . . .	209,150	14,155	74,160	88,315	42
1825 . . .	189,257	11,697	80,250	91,947	48
1826 . . .	214,056	11,949	85,202	97,151	45
1827 . . .	161,430	9,450	69,856	79,306	49

Remarks on Table.

"The amount of our notes has not only far exceeded our utmost expectation, but has been the one cause of the great increase which has taken place in the original and fundamental branches of our business—the deposit of money with us at interest and the negotiation of bills of exchange between Edinburgh and London, both of which branches have been enlarged to a most astonishing degree; while, on the other hand, those branches of our business have been the means of facilitating and extending the circulation of our notes, so that they have mutually acted and reacted on each other."—"Memoirs of a Banking House," Sir W. Forbes.

1784.—Increased circulation to meet wants in monetary crisis of 1783-84.

1788.—In this year there was a decrease of small notes, which was more than counterbalanced by increased circulation of large notes to meet necessities of *commercial men*; in the following year, from the continued depression, small notes were largely used.

1797.—The effects of the tremendous "run" of this year are here shewn in an exaggerated scale, as Sir W. F., from prudential motives, paid all his own notes presented through the exchange, but did not issue any, until he saw what course events were likely to take. To *increase* the *paper* currency was almost impossible for some days, as coin only was wanted.

1810-1815.—Want of bullion, high war prices, and commercial speculation increased the circulation greatly at the beginning of this period; as the distress passed on, the circulation rapidly decreased. The fall in large notes is very marked. The guinea notes with their odd shillings are found useful as change, but begin to disappear from 1813.

1782-1827.—46 years' average of small notes, 54 per cent.

1865-1874 inclusive.—10 years' average of small notes for the Scottish banks, 64·5 per cent.

As the end of the century drew near a series of crimes occurred throughout the country, and a few of these bank robberies and small note forgeries may be mentioned.

On 26th January 1774, an advertisement appeared in the Edinburgh papers regarding an extensive forgery of Bank of Scotland guinea notes:—"The engraved part is well executed, so that at first sight it is difficult to distinguish the forged from the real note. The forged note wants the watermark on the paper which is in that of all the real notes, but an imitation of it is attempted with an instrument, which is discovered by looking at the back of the note." Next day the British Linen Company issued a similar advertisement regarding its one pound notes, dated 6th September 1770:—"The forged notes are done on

common paper. The figure of the woman [Pallas] and ship is ill executed and appears faint, and the strokes of the letters in the copperplate print are less full and broad than in the real notes." The imitation of the watermark had nearly cut the paper by the pressure required to bring it out. In both cases £100 reward was offered by the banks, but without apparent effect. A similar attempt had been made on the British Linen Company in November 1772, in which one John MacAffee was found guilty. From the facsimile notes of the period, reproduced elsewhere, the reader may judge that a very elementary knowledge of engraving would suffice to impose upon the public.

During the night between the 16th and 17th of February 1788, the Dundee Banking Company's office was broken into and robbed of £423, of which nothing was recovered. A strange fatality attended this robbery. Two men were tried, convicted, and hanged at Edinburgh, asserting their innocence to the last. In the same year other two men were arrested, of whom one was sentenced to be hanged but was afterwards pardoned. In 1790 suspicion fell upon a fifth man, who had been convicted of forging a bill. He was shipped to Botany Bay, but was hanged on the way for mutiny. Yet a sixth individual in 1790, on being condemned to death for another crime, endeavoured to get a respite by asserting his knowledge of the robbery; his story was disbelieved, but, with the rope round his neck, he repeatedly declared that the three men previously sentenced, two of whom had been executed, were guiltless of the crime.

In 1791, on 29th October, £1600 in guinea and one pound notes were stolen off a cart in Glasgow. The owners, Messrs Andrew, George, & Andrew Thomson, bankers there, advertised a reward of £200, which they paid to a lad in the following month, who had found the box, and its contents untouched, in a dunghill in the Saltmarket. In the same month 500 guinea notes of the Paisley Union Bank were removed from a mail-coach

running between Carlisle and Glasgow. On 14th October 1797, Milesius Roderick M'Cuillin was condemned to be hanged for uttering forged notes in Scotland, a sentence which was carried out on the 21st of that month.

By the Stamp Act, 1791, one pound and guinea notes were for the first time threatened with taxation ; but upon the rumour becoming known amongst the Scottish members of Parliament, it met with such opposition that the proposal was abandoned for a time.

CHAPTER VIII

1793-1820

THE FRENCH REVOLUTION AND WAR CRISES—CASH PAYMENTS STOPPED—ENQUIRY AS TO DEPRECIATION OF SCOTTISH NOTES DURING RESTRICTION PERIOD.

"When all around was danger, strife, and fear;
While the earth shook, and darkened was the sky,
And wide destruction stunn'd the listening ear,
Appall'd the heart, and stupefied the eye."

SCOTT, *The Vision of Don Roderick.*

DURING the nine years' peace—from 1783 to 1792—the country made rapid strides, the large banks advancing with the times in financial prosperity if not in popularity, Bank of Scotland stock selling at over £300 per cent., and Royal Bank new stock steady at £240. To increase business many of the banks opened branches in different parts; amongst others the Dundee bank, on 24th March 1791, minutes a resolution, "that as the circulation of the bank has considerably diminished, and probably owing to the number of branches from other banks which have been opened in this and the neighbouring towns, it is expedient for this company to establish branches in other towns." They accordingly did so in Brechin, Arbroath, Forfar, and Kirkcaldy, carrying on a good business for some years, until heavy losses, caused by absconding agents, led the bank to close them all—a misfortune which might have been avoided by the appointment of a good inspector.

Scarcely had the country time to think upon its

renewed prosperity, when the long pent-up volcano of the French Revolution burst out upon the world. The cataclysm of blood and war which ensued, the derangement of commerce, and the inundation of France with millions of assignats—all combined to produce European disturbance, from which England and Scotland were not free. In the midst of the excitement the militia were called out to resist the dreaded invasion of the Revolutionists, an act which "served to check mercantile credit all over the kingdom." A serious demand for money set in (twenty-two bankers failing in England alone), and rose to an extent that caused the stoppage of the old firm of Murdoch & Co., the Glasgow Arms Bank, whose business had declined since Mr Trotter's days. Immediately thereafter James Dunlop, one of the wealthiest men in Glasgow, and the house of Bertram, Gardner, & Co., in Edinburgh, also stopped; "and to complete the confusion, the four banks in Newcastle, which were known to be opulent, were forced to shut up." Sir William Forbes has left a note of the effects of the run on his house, shewing that while only 60 interest receipts were granted between 23rd to 30th April 1793, the number paid was 608. The sum of interest receipts "paid more than granted" from December 1792 to 23rd May 1793 was £263,724; and the sum on current account as much more. The circulation of his notes[1] affords a glimpse into the character of the run, the one pound note holders being the principal actors. As the British navy cleared the seas of the French marine and restored commerce in some measure, trade became better than it had ever been during a foreign war; but the alarm of the invasion of Ireland, and the scarcity of gold from the war drain, caused another sharp run upon the banks in 1797, though fortunately it was of shorter duration than that of 1793. The lower orders and agricultural population were the most easily excited, and the Edinburgh bankers were beginning, according to Sir William Forbes, to dread a "still severer demand, when, early in the morning of

[1] See Table, p. 137.

Wednesday, the first of March, an express arrived from London to the directors of the Bank of Scotland from Thomas Coutts & Co., informing them that the demand for gold at the Bank of England had risen to such an alarming height, that the directors had thought it proper to state the circumstances to the Chancellor of the Exchequer, who immediately procured an order of the Privy Council to be issued, prohibiting that bank from making any more issues of specie for their notes." As the panic arose in England, it will be well to consider both cause and effect in that country. From 1794 to 1797 war expenses had drained the Bank of England of gold, a matter which caused the country much distress, as the Bank did not make up the deficiency by a smaller note issue, leaving that duty in the hands of private bankers, who, being unprovided with specie, were accustomed to stop payment, when confidence broke down, until a local guarantee of their notes was made by their friends to enable them to recommence business. Nearly a hundred country banks were bankrupt in England during 1797. The Bank had tried to keep back the Atlantic with a mop of five-pound notes, issued for the first time, its previous issues having been for larger denominations. It was not a commercial crisis in any sense, being entirely caused by the breakdown of public confidence, followed by hoarding of coin. In the Restriction Act, passed to confirm the action of the Privy Council, it was provided that £25,000 in cash might be advanced to the Bank of Scotland and Royal Bank.

Sir William Forbes has left an account of the scene. On the news reaching Edinburgh, walking into his place of business at ten o'clock, wrapt in gloomy reflections, he found it filled with a jostling crowd clamouring for gold. To the celebrated house in the Parliament Close the cashier and deputy-governor of the Royal Bank and the treasurer of the Bank of Scotland resorted for consultation with the famous banker. Mr Hog, the manager of the British Linen Company, was sent for, and seems to have

come at once. An adjournment followed to the Bank of Scotland, where it was agreed that there was no course open but to follow the example of the "Bank of England, and suspend all further payments in specie." A public meeting was held, at which the decision was unanimously confirmed; expresses were sent out to the provincial towns, and circulars were scattered through Edinburgh with the intelligence. The direst uproar at once broke out, and every bank in the town, for the remainder of the week, was crammed with "fishwomen, carmen, street porters, and butchers' men, all bawling out at once for change and jostling each other in their endeavours who should get nearest to the table." Specie was in existence, but no one would part with it, and as Saturday drew on, the want of small change exhibited itself in various distressing ways. The banks were besought to issue notes of smaller denomination than for one pound, but the Act of 1765 standing in the way, recourse was had to tallies, tokens, and sometimes even to the tearing of a twenty-shilling note into quarters, for which the banks afterwards freely paid the proportional sums. In England an issue of one pound and two pound notes for the first time by the Bank of England lessened the inconvenience. Had they been issued sooner the Bank might have saved the situation. A large quantity of Spanish 4s. 6d. dollars were marked at the Mint[1] and circulated along with quarter guineas and some other small coins. In a short time an Act was passed through Parliament, 37 Geo. III., c. 32, suspending the Act of 1765, and authorising specially the three old banks, and generally other bankers who had been accustomed to circulate notes on or before 2nd March 1797, to issue "notes, bills, or tickets in the nature of bank notes, payable to the bearer on demand, for any sum whatever under the sum of 20s. sterling." Such of the banks as had already issued

[1] King George's head was stamped upon King Ferdinand's, whereupon a grateful public said—

"The Bank, to make its Spanish dollars current pass,
Stamped the head of a fool on the head of an ass."

notes in contravention of the Act of 1765 were indemnified for having done so. The duration of this Act was subsequently extended, by Act 37 Geo. III., c. 61, to 5th July 1799, during which time many banks availed themselves of its sanction, the Dundee bank alone issuing over £12,700 of 5s. notes, representing 50,800 notes—an amount that shews how largely the benefit was taken advantage of for a time, though from the nature of the panic, the need for notes smaller than one pound soon passed away, as the specie-holders, overcoming their fears, produced their hoards in exchange for goods or bank notes. Opposite is given a facsimile of a British Linen Bank note for 5s. issued in 1797. Sir William Forbes remarks that though the "Royal" and some provincial banks issued these notes he did not do so, "being convinced that there was no real scarcity of specie in the country, and that it would make its appearance when the panic should wear off, as actually proved to be the case." His own note issues were restricted for a time, none being issued for several weeks; but as large numbers were paid, the circulation fell from £115,200 in January 1797 to £47,200 in the following April, the amounts of one pound and one guinea notes at the same times being respectively £63,900 and £29,800. In number, the large notes were about 8000 and 3000 at the two periods, so that the area of panic must have been principally confined to one pound note holders of the "fishwomen and butcher men" type described in his memoirs, who from their humble position naturally most severely felt the lack of metallic currency.

The position of the British banks was now a most anomalous one, and illustrates strikingly the effects of public confidence during a national emergency. The Act of 1765 had given the remedy of summary diligence to all holders of Scottish notes who could not get payment on demand. Such payment implied settlement in specie, as no notes were legal tender in Scotland; and now, in 1797, there was not a bank in Scotland who would give specie for their notes. Yet there is no record of any Scottish

holder attempting to exercise his right. Sir William Forbes mentions that only one case arose in England, when an individual named Grigby brought an action for payment against Messrs Oakes Son, of Bury St Edmunds, in 1801, for which he was severely reprimanded by Baron Hotham, before whom he brought his petition.

Throughout the twenty-two years of the Restriction Act, such was the trust placed in the banks by the Scots people, that a paper currency based merely upon such specie as could be collected in the ordinary course of business from the amount circulating in the hands of the public, passed from hand to hand for nearly a quarter of a century without openly losing in value to an extent that entailed payment of a premium for their exchange. The note issues of the Bank of England have to be judged by a different standard; and in view of the work which they had to do. Britain was engaged in her last struggle with Napoleon, when the bank in addition to perpetual conflict with bullion brokers, professional coin-melters, and gold smugglers, was almost compelled to produce enormous sums to satisfy Government demands; for no ordinary demand of commerce could cause the prodigious increase in its note issue, which in

1784	stood at . .	£6,000,000
1790	" . . .	10,909,694
1797	" . . .	8,601,964
1809	" . . .	19,641,640
and in 1814	" . . .	28,291,832

It was a period of national emergency whose necessity knew no law save that of existence.

Thousands, almost millions, of the bank's notes circulated on the Continent during the war; and it was the sight of them in Russia passing from hand to hand like gold, that drew from Napoleon the words, "I trembled for the fate of our enterprise." An utterance all the more remarkable, coming immediately after the defeat of Austerlitz, when his bulletin to his soldiers proclaimed that "they had scattered to the winds" the last army "on

which the commercial spirit of a despicable nation had placed its expiring hope."

The war raised prices generally, and thus called for a larger currency to move commodities; this in turn (as the restriction permitted no gold to be paid out) called for an ever-increasing circulation of Bank of England and private bank notes. Meantime exports did not balance imports (using these two terms in their widest sense). The enormous expenditure for the army and navy abroad and subventions to continental powers (paid out in gold and bank notes) kept the Foreign Exchanges continuously against the London. The Bank of England was not permitted to pay these adverse balances of exchange in gold, and could only do so by using more notes, which the Continent declined to accept at full gold value. Thus the exchanges fell and continued to fall beyond the limits of the lower bullion point by a sum which generally equalled the difference between the British mint price of gold, £3. 17s. 10½d. per ounce, and the market price of the day. In 1813 the latter rose to £5. 10s. per ounce in London, although in Hamburg and other centres where no excessive note issue existed it continued unchanged from its old price. The dispute which arose between two schools of financiers as to whether gold had risen or notes fallen, is perhaps most conclusively settled by the above facts as to gold prices at home and abroad, and also by the fact that not gold alone arose in price, but all prices rose, indicating that they rose relatively to the cotemporary standard, which was not gold but paper money. The Bank of England £1 note at the worst time (1813) could purchase only 87¼ grains of gold bullion instead of 123¼ as in 1800, having lost nearly one-third of its purchasing power.

For some years after the Bank was able to resume payment, the House of Commons stubbornly maintained that there could be no difference of value between paper and gold, Lord Liverpool, amongst others, asserting to Lord Lauderdale that notes were not depreciated, but that possibly gold had risen in price! The

Government, which lavished millions upon the powers of the Continent, could scarcely be expected to appreciate the difference between a paper promise to pay £1 and a piece of gold for the same amount; and through their inability to distinguish between the cause and the effect, they delayed the resumption of cash payments until years after the Bank declared they were able to meet their engagements. To 1815 this policy was excusable, as the pressure of 1810 and 1814 would in all probability have compelled the Bank to stop, had it begun to pay gold prior to those dates.

Similar results to those exhibited by the Bank of England were shewn in Dublin, where the Bank of Ireland enjoyed the protection of the Restriction Act by special enactment. Taking advantage of the position, the Irish bank issued its notes to an extent which, so early as 1804, reduced their value 2s. 2d. per £1, and thus brought the exchange on London of that year from £105. 10s. of Dublin money per £100 London, as it had been in 1797, to £117 Dublin for £100 London money. As with the English exchanges, the cost of conveying the bullion did not account for the difference. Between Ireland and London such carriage would amount to about £2 or £2½ per cent.; and as the par of exchange was £108. 6s. 8d. Irish to £100 English money, there is a clear loss of 6½ per cent., which can only be accounted for by the depreciation of the Irish bank note. While this was the case in Dublin, the par of exchange was scarcely affected in Belfast, where the notes were not issued in excess, and therefore did not affect the exchanges as in Dublin.

In Scotland the principal banks, acting so far as can be seen with commendable prudence, restricted their issues to the commercial wants of the time. The Bank of Scotland and British Linen Company, instead of an increase towards 1817, as in England, have a considerable decrease; while the Royal Bank, which was very low in 1816, maintained its issues in after years at nearly the

same as at 1810. In 1804, from a desire to restrict advances on discounts slightly and thereby check the note issues, the banks began to charge from ten to twenty days' additional discount on bills payable in certain towns, by way of exchange.

Although from the quietness and success of their procedure in these years the notes of the Scottish banks did not become depreciated, yet the affairs of the two countries were so intimately bound up with each other, that it seems *ex facie* impossible that a one pound note of the Bank of England could fetch only 15s. in gold, while a Scottish note could buy 20s. worth of the same metal. A few points may therefore be indicated to shew the position.

There can be no doubt that though there was no local depreciation in the ordinary sense, the Scottish paper currency must necessarily have lost so much of its purchasing power in the general rise in prices, including gold, as the war prices affected Scotland as well as England. This loss of power could only be counterbalanced by an increase of issue, and the tables of circulation of Sir William Forbes & Co. and of the Dundee Bank both shew very large increases about 1810, the former bank's figures rising from £142,000 in 1800 to £251,000 in 1810, an increase which could scarcely be accounted for wholly by an increase in general business, as a fall of £50,000 took place immediately after 1812.

The Scots banks found another method of mai-n taining the credit of their paper, by adhering to the practice of 1770, and settling their exchanges of notes by bills on London drawn at ten days date—a rate from thirty to thirty-five days below the natural rate of the commercial exchanges. This caused a loss to the banks issuing such drafts, but as the amounts given and received would be nearly equalised on the annual average, the loss and gain of such payments was neutralised, though the method was a powerful deterrent of over-issue. It was probably this course which led them, about 1804, to charge

additional days of discount by way of exchange on certain bills, as noticed before, so that the burden of final settlement might be put upon the public who obtained notes for these bills, and thus increased the circulation which the banks had to pay off when it came back through the exchanges.

It was not until 1820 or 1825 that the natural rate fell to twenty days on London, while the ten days and seven days rates have only been reached since railways so greatly reduced the cost of carriage and thus contracted the bullion points. Sir Henry Parnell—M.P. for Dundee—in his "Observations on Paper Money, Banking, &c.," 1826, gives a fairly accurate estimate of the relative depreciation of Scots notes at this period. He says: "This practice of drawing on London by the banks, for the purpose of paying to each other twice a week the balances of the exchanges of their notes, has kept the value of bank paper in Scotland from ever becoming of *less value* than the *current money* of London. *Whilst that consisted wholly of paper, the Scotch paper fell in value with it;* and now that it consists of paper convertible into gold, the Scots paper is of equal value with gold, because every banker can obtain gold for the bills he receives in exchanging the notes of another banker, if he chooses to require it. It is in this way that the paper money of Scotland maintains the nature of gold, although no gold exists in the circulation."

The difference between the two currencies seems to have lain in the fact that the Bank of England was *compelled* to produce funds to pay for war supplies, by means of its world-wide note issues—funds which, from their nature and volume had a deteriorating effect upon the medium of exchange, whereby they were transferred from the Bank to the Government, and from the Government back to its creditors,[1] who were not entitled to demand

[1] So much was this the case, that, so late as 1819, the exchange on Paris was down to 23.45—*i.e.*, 1s. 4½d. per £, or £6. 16s. 8d. per cent.—*below* the current par of 25.17½, and £6. 10s. per cent. below the low bullion point (bullion points being 25.10 and 25.25), a fact only

gold from the Bank for them. In absence of gold, Bank of England notes thus formed the only legal tender and standard of value. Being a forced standard and without intrinsic value, its depreciation became manifest by the rise of all prices quoted in its terms, gold included. All bank notes lost so much of their purchasing power as compared with 1800, and as it cannot be shewn that in Scotland either general prices or foreign exchange rates differed materially from those of London, it follows that all Scottish notes must, with those of the Bank of England, have also fallen in purchasing power.

explicable by the stoppage of gold payments and forced note issue of England; for whenever cash payments were begun, the rate rose in 1820 to 25.60, or 34s. 2d. per cent. above par, and £8. 10s. 10d. per cent. beyond the actual exchange of January 1819. Assuming, therefore, that *ordinary commerce* would have made the exchange of 1819 nearly as much in favour of England as that of 1820, if the former had not been affected by other causes, the difference between the extremes, £8. 10s. 10d., when reduced by 34s. 2d., leaves £6. 16s. 8d. to represent the depreciation of cotemporary English legal tender, bank notes, *as compared with gold.* This is approximately proved from the average premium on gold for 1819 being £4. 9s. per cent., or £95. 11s. of gold to £100 bank notes; the difference between £6. 16s. 8d. and £4. 9s. being explained by the above example exchange, 23.45, being the *lowest* point touched in 1819, while the £4. 9s. is the *average* premium for that year, there being great fluctuation towards its close from legislation for resumption of cash payments.

CHAPTER IX

1800-1826

JOINT-STOCK *v.* PRIVATE BANKING — THE COMMERCIAL BANK AND NATIONAL BANK—BANKING RECORD.

"Weighed in the balances, and found wanting."

THE opening of the nineteenth century in Scotland witnessed the establishment of many joint-stock companies, a sure indication that, notwithstanding war expenditure, the capital of the country was increasing more quickly than was required for current business, and could thus be diverted to other channels of employment. The varied mechanical improvements of the previous thirty years had placed Britain at the head of the manufacturing world. At the precise time under notice severe depression existed following upon the obstruction of the war; but as one opening closed, the indefatigable capitalists of the country soon found other regions wherein to prosecute their adventures. To meet the requirements of the new departure, the banking houses of the period entered on a course of winnowing and enlargement which distinctly marked off the new century from the old with its antiquities.

The system of private banking had been gradually losing power over the commercial population. In proportion as their end approached, these financiers endeavoured to increase their influence with the old banks by obtaining a voice in their direction.

Repeatedly their influence was objected to, and several

efforts were made to throw them off by limiting their credits and deposits, but without success. Notwithstanding all that has been said and written against them, these gentlemen appear to have guided the old banks' general policy with integrity. Their action during the restriction crisis was so cautious as to excite severely adverse criticism, but Scotland was safely guided through a most critical period by their caution and professional skill; that they had due sense of obligation to meet current requirements, is shewn by the increase of capital of the two senior banks from £1,000,000 to £1,500,000 sterling. The defective part in the arrangement was the alleged manner of granting accommodation to the public. Instead of coming direct to the old banks, it was rather the rule for a trader to approach a private banker, who in turn obtained his support from one of the joint-stock banks, making his profit out of the difference between what he paid to his bank and what he got from his customer. Dissatisfaction arose, and as profits were cut more closely, so evident a waste of *one profit* in their banking transactions was resented by business men, and especially so by the rising Whig party, who believed the banks to be wholly abandoned to Toryism.

The idea of new banking seems first to have arisen in the provinces; the presence of branches of the Edinburgh banks suggesting the possibility of new ventures being equally profitable. The result was not satisfactory. In 1802 the Fife Banking Company began with a capital of £30,000, to wind up under the crisis of 1826 with a call of £2500 per share on its proprietors paying its liabilities in full. In the same year (1802) were started the Renfrewshire Banking Company of William Napier & Co., having five or six branches, which failed in 1842, paying only from 7s. 6d. to 9s. 2d. per £ (its liabilities were £226,545; certain creditors dating from prior to 1840 were paid in full by some retired partners. Their notes (95 per cent. of £1 notes) circulated in the West Highlands from Inveraray to Campbeltown); the Cupar Bank, which retired

from banking in 1811; and the miserable Falkirk Union Bank, sequestrated in 1816, with debts of £60,000, paying 9s. 6d. per £. Some of the notes of these banks come in to the banks to this day. With the exception of the Fifeshire Bank, which had forty shareholders, all these were merely private banks with sounding names, none of them having over ten partners at date of their closure. The Dundee Commercial Bank shareholders having been reduced to four in this year (1802), they handed their business over to the Dundee New Bank. The latter lost £12,000 by fraud in 1804; its note circulation flying up from £25,000 in 1802 to £110,000 in 1806, gradually to collapse to £19,000 in 1838, when it joined the old Dundee Banking Company.

In 1804 Paterson of Costerton opened a bank in Dumfries, which failed in 1807 (or 1813), with liabilities of £118,000 and assets of £90,000, paying about 14s. per £. In the same year (1804), John Belsh & Co. began a small bank in Stirling, which failed in 1806. Their 5s. notes were original, reading—"We promise to give the Bearer on demand at our office here, one Twenty Shilling Bank Note for four of this description.—Stirling, 28th December 1804. John Belsh & Co."

The Bank of Scotland and Royal Bank, remembering the troubles of 1772, refused to receive new country bank notes, as these new companies bore a close resemblance to Douglas, Heron, & Co., and would fain have forced their notes upon the country by travelling agents. The result proved the soundness of judgment of the old banks, whether it was dictated by their private bank directors or otherwise. Another bank opened in 1802—the Kilmarnock Bank, which survived to be joined in 1821 to the respectable firm of Hunter & Co. of Ayr.

The emigration to Brazil of the Royal Family of Portugal, on Napoleon's seizure of the latter country in 1807, opened up eastern South America to British commerce, and originated an extraordinary outburst of

speculative trade at abnormally high prices, which culminated in 1810. These prices were accurately reflected in the note circulations, which were larger in that year than for many years before or after. London wheat prices rose from about 53s. per quarter in 1804 and 76s. in 1805 to 109s. 9d. in 1810, while the bankruptcies of the latter year were in England 2314, nearly 1000 above previous years. The crisis dragged on until 1815, under the ever-recurring derangements caused by Napoleon's trade decrees; wheat prices rose to 125s. in 1812, to fall to 64s. in 1815. As one country was opened another was closed, and traders were utterly uncertain that the fair field of one year would continue to the next.

The sure precursor of this crisis of 1810-15, a new rush of banking houses, came into existence about these years. In 1809 and 1810 appeared the Dundee Union Bank, the Glasgow Banking Company, the Glasgow Commercial Bank, and the East Lothian Bank. The last named had a capital of £80,000, and did a large business in Haddingtonshire, until 1822, when it suddenly stopped, owing to the villainous conduct of its manager, William Borthwick, who disappeared with nearly £30,000 of the company's notes, most of which had been put into circulation. The bank received some aid from Sir William Forbes, who retired their notes, amounting to upwards of £50,000.

Suspecting some of the directors of discovering his misdeeds, Borthwick prepared a scheme for placing a few of these gentlemen into large puncheons, with suitable breathing-room, and thereafter having them shipped from Dundee to be landed out of the way at Dantzig, and confined in the heart of Prussia for a time. At first it was supposed that the scoundrel had betaken himself to America, and an Edinburgh merchant crossed the Atlantic in the endeavour to trace him, but it was afterwards believed he had taken refuge in Norway. The creditors of the bank were paid in full.

In 1810 the foundation was laid of the most important

Scottish bank since the rise of the British Linen Company, certainly the most important joint-stock *unlimited* bank Scotland had hitherto seen. In that year, through the energy and individuality of Mr Forrest Alexander, an Edinburgh tanner and leather merchant, the Commercial Bank of Scotland began business with the large nominal capital of £3,000,000, having £450,000 paid up. The outcome of a Whig revolt against the tyranny of the old banks, the new bank secured itself against the manœuvres of the private bankers by a decision that such gentlemen were not eligible as directors. This move combined with the subsequent popular policy of the Commercial Bank did much to destroy the peculiar style of banking favoured by that class. They no longer acted as intermediaries between the public and the large banks; the latter were soon found encouraging direct dealings with the former, and private banking shrank into insignificance in a quarter of a century. The Commercial Bank was the first large joint-stock whose charter (subsequently granted) contained the provision expressly excluding limitation of the shareholders' liability. Dangerous as this was to the shareholders, it doubtless added to the confidence with which the new venture was received. It at once entered upon an energetic establishment of branches, a work hitherto peculiarly that of the Bank of Scotland and British Linen Company, but which, from the inevitable relapse attending all sudden expansions, and doubtless also from the heavy tax levied on the notes, had somewhat fallen into abeyance with the former bank. Giving due credit to the British Linen Company as the real founder of a successful branch system, it was left to the Commercial Bank to give the greatest impulse it had yet received. The British Linen Company steadily increased the number of its branches, but the Bank of Scotland closed several between 1810 and 1826. This retrogression in branch extension on the part of the old bank between 1800 and 1820 was caused partly by the very strong provincial competition, or possibly to some extent by the stamp duties on notes

begun in 1800. The Royal Bank still could boast of only one branch, that in Glasgow. The following shews the number of branches at the respective years named :—

	1800.	1810.	1820.	1830.
Bank of Scotland .	26	20	13	17
Royal Bank . .	1	1	1	1
British Linen Company	14	15	17	28
Commercial Bank .	—	—	14	30
National Bank . .	—	—	—	18

Between 1800 and 1820 the Bank of Scotland closed its branches at Banff, Brechin, Coupar Angus, Elgin, Dundee, Forres, Greenock, Huntly (through losses amongst farmers), Kilmarnock, Montrose, Tain, Thurso, Wigtown, and opened only one branch, that in Glasgow, though it maintained a bill collector in Dundee. Several of these closures—Dundee, Greenock, Kilmarnock, Montrose—can be traced to local competition of new banks; for even the Commercial Bank closed its Paisley office for a time in 1827, where the pressure from the local Paisley and Glasgow banks left little business for the eastern houses; but the numerous withdrawals of the Bank of Scotland can only be accounted for by some policy of its private bank directors, whereby possibly it was hoped to act more in Edinburgh as the Bank of Bankers (as the Bank of England did) than spread into regions beyond the scope of their immediate control.

Meantime the Commercial Bank, strong in its ample capital, large proprietary, and able management, so gallantly carried up the structure founded by the British Linen Company, that in the sixteen years to 1826 it had opened thirty-one new offices—four in 1811 (the first being in Dalkeith, then the chief seat of the corn trade in Scotland), three in 1812, four in 1813, three in 1814, eight between 1820 and 1824, and nine in 1825, before the English panic.

The beneficial influence of one such bank so greatly exceeded that of the various local houses, that for scope, solidity, and beneficence it well deserved Mr Kerr's

eulogium: "From the outset it appears to have been designed on a *large-minded* plan, and to have met a decided want. The new establishment was very popular, but it was also very discreet, for while it studied the best interests of the public, it imitated the wisest provisions of the old banks' practice."[1]

No banking method has so direct an influence in extending the circulation of notes upon a sound basis as the branch system, and the towns in which the Commercial Bank opened its first branches shew how the authorised circulation came to be fixed at so large a sum in 1845. Dalkeith, where the first office was opened, was then the centre of a wide district, in which, it is needless to add, there were no railways. The whole south country, embracing Earlston, Melrose, Galashiels, part of Berwickshire, and the fertile Lothians, sent in its grain in bulk to the Thursday market, which had grown up under the shadow of Dalkeith Castle. The transactions were large, and as no bills were taken or given, cash payments by bank notes became the invariable rule. These were taken away by the farmers on their homeward journey, paid out at the south country fairs for cattle or for wages, and might not filter back to a bank for several months. Leith was not so marked in this respect, as any notes given out there soon came back; but Tain and Crieff, the next in order, closely resembled Dalkeith—the former *entrepôt* for the rich agriculture of Easter Ross, and the latter for Strathearn and the surrounding districts of Perthshire. Thurso and Peterhead were soon visited, and Glasgow and Banff followed in 1814.

Of the advantage of opening in Glasgow it is unnecessary to write, but the energy which led to that field within four years of the bank's foundation was in marked contrast to the action of other banks, who had neglected for half a century so rich a soil.

In the three other towns named, the rising fishing industry was aided. Placed geographically at disadvantage,

[1] Mr A. W. Kerr's "History of Banking in Scotland."

the scarcity of money or means of banking had hitherto hampered both curers and fishermen. A free issue of one pound notes simplified payments between employers and employed; and the circulation of the bank was in consequence widely and permanently extended, a considerable proportion of the paper being carried away by the work-people at the close of the season to their native glens or townships, there to be either hoarded for a time, or still further circulated amongst farmers, storekeepers, and others, until after the lapse of months they gravitated towards some of the towns where a branch bank existed, and were there converted into deposits. Such of the notes as had been at once returned to the issuing branch by fishermen, usually went to swell the deposits of the office, for gold was seldom if ever asked for, even the Yarmouth fishers often carrying home their earnings in Scots bank notes. The class of deposits lodged by means of these notes was both profitable and safe, consisting of a large number of small sums which might remain for years undisturbed, the danger in time of panic being minimised by the extent of the area from which they had been received.

At Wick, in 1825, upwards of 14,000 people were employed in the herring trade, one-half of whom came from other towns, or the Western Highlands, Hebrides, and foreign parts. To keep these in employment required 1068 boats, of which 658 were Scottish, and 410 English, Irish, French, and Dutch. The agent of the Commercial Bank in the town made a report to his head office in 1825, in which he says: "The stranger fishermen almost invariably carry home their earnings in bank notes." The circulation at the season in question is "augmented to a degree totally beyond what a district situated so far north might be supposed to require—the sums circulated in this period chiefly arise from the payments made by the regular curers to the fishermen and others employed. As a fair mode of calculation, it may be estimated that £140,000 is put in circulation by the payments made to

the fishermen, coopers, &c., during the continuance of the season."

Then follows the important paragraph: "The small notes are almost the only medium used in circulation in this district. The reason is obvious, because the smallness of their value throws them into the hands of all classes; and as the fishers, coopers, and women, and others employed are poor, the acquisition of large notes by them seldom takes place."

"Another matter of experience may be adverted to. It frequently happens that foreign vessels coming here to buy or cure herrings, tender gold in payment; the fishermen, who are ignorant and illiterate, invariably refuse to take it, no doubt in dread of imposition from bad and counterfeit metal, and always ask for bank notes for their herrings. It even occurred last year, that many of the strangers carried gold with them, which they were obliged to get exchanged for notes, as those having bank notes could purchase herrings at 1s. to 2s. per barrel cheaper than those having gold."

Some of the other branches then opened were equally well adapted to the convenience of the public and the profit of the bank. Many towns were chosen in which none of the three large banks had branches—amongst these, Lanark, Kilmarnock, and Paisley had an extensive weaving trade; Alloa and Campbeltown were engaged in the liquor traffic; while the ironworks of Falkirk, and the shipbuilding trade of Dumbarton, owe something to the the Commercial Bank.

In the same year in which the new bank opened, the Bank of Scotland gave another proof of adaptability to altered circumstances. A rival bank had to be faced, and a heavy drain for mercantile advances, required by the panic of that year, had set in. By a new method the old bank met both these necessities by increased rates of interest allowed upon the new deposit receipts first issued in this year—the convenient, but still unnegotiable, successors of the old "treasurer's bond." The rate allowed

was 4 per cent., discounts being raised to 5 per cent., with the immediate result that the drain for advances ceased. The Royal Bank and the British Linen Company followed the same course, which was maintained until 1817, when the rate was again lowered by the Bank of Scotland and Royal Bank. In the following year the British Linen Company also lowered its rate for current accounts; but the Commercial Bank paid 4 per cent. on all sums lodged with them, even on current account. Thus throughout the severe pressure of 1815 and 1816, with heavy failures in Glasgow, causing severe loss to the Royal Bank, the rates of interest and discount were maintained at such a level as would reasonably check unwise speculation.

The following figures may be interesting, as shewing the great shrinkage in the Royal Bank's circulation at this period. The Glasgow office caused very serious losses in 1813-1814 and 1816, and the total note circulation fell to one-quarter of the amount in 1810. For every £1000 of its notes in circulation on 1st January 1810, it had, during the undermentioned years, these sums, namely :—

Year.	Average.	Highest.	Lowest.
	£	£	£
1810	950	1080	873
1811	765	826	727
1812	714	774	662
1813	630	732	488
1814	730	882	554
1815	560	713	394
1816	375	554	267
1817	1023	1436	652
1818	1145	1183	1122
1819	1127	1183	1093
Years, 10	8019		
	801—average for 10 years.		

The circulation of the Bank of Scotland upon the same

basis, taking 24th December 1810 as the date of the £1000, was as follows :—

Year.	Average.	Highest.	Lowest.
	£	£	£
1810	982	1000	928
1811	913	944	873
1812	894	916	883
1813	839	877	811
1814	833	852	808
1815	725	769	629
1816	691	722	672
1817	732	754	680
1818	769	748	817
1819	773	804	755
Years, 10	8121		
	812—average for 10 years.		

For sake of comparison of increase, for the figures give no indication of the separate circulation of the banks, there is subjoined those for the British Linen Company, whose £1000 were dated from 5th January 1810 :—

Year.	Average.	Highest.	Lowest.
	£	£	£
1810	1008	1075	889
1811	920	1003	762
1812	1097	1258	913
1813	1303	1410	1103
1814	1337	1389	1289
1815	1104	1217	1072
1816	940	1041	882
1817	918	955	879
1818	1171	1334	972
1819	1148	...	...
Years, 10	10,946		
	1094—average for 10 years.		

It is not known what each £1000 of the foregoing

tables represented; but assuming that the parts of the different circulations bore somewhat similar proportions in 1810 or 1820 as in 1845, when the three banks had a circulation of £920,000 (of which 73 per cent. were small and 27 per cent. large notes), the following results are worked out.

In 1810 the representative figures opposite the three banks are:—£950 Royal Bank, £952 Bank of Scotland, and £1008 British Linen Company—in all, £2910. Of this the banks admitted that £381,000 were small notes, while in 1815 they admitted that about 39 per cent. of their circulation were large notes. The £381,000 may thus be roundly taken as three-fifths (60 per cent.) of the whole circulation, the total being, therefore, say £635,000 in 1810, as against £921,000 in 1845. Supposing that the respective circulations increased in the same ratio from 1810 to 1845, the 1810 figures in the tables may stand for £126,000 as the Royal Bank's circulation, £207,000 for that of the Bank of Scotland, and £302,000 for the British Linen Company's. Thus the lowest point reached by the Royal Bank—in 1816—might be £35,000, and their average for that year £49,700, or a fall of £76,000 (61 per cent.) below 1810; the lowest average of the Bank of Scotland—also in 1816—would be about £147,000, and their lowest point £136,000; while the smallest with the British Linen Company, in the same period, is about £238,000. These variations correspond with those in Sir William Forbes & Co.'s circulation, which in 1810 stood at £251,000; whereas by 1816 it had fallen to £172,000, and in 1817 to £153,000, rising considerably in 1818 to £200,000, but not touching the high circulation of 1810, which seems to have been abnormally large. An examination of Sir William Forbes & Co.'s circulation about this time shews that the largest variations were caused by notes of £5 and upwards whose percentage was increased from 1800 onwards to 1815. The total circulation of these four and of the Dundee bank in 1810 was about £950,000, to which the Glasgow and country banks might add three

millions, bringing up the total to nearly £4,000,000. Compared with their exchange power in previous years, this amount is no more than might be expected; for the whole paper currency of the country at this time had lost from a fifth to a third part of its purchasing power from the high prices ruling, and must therefore have been increased by these parts to move the same bulk of commodities; so that £4,000,000 notes in 1810 or 1815 bought no more than was done by £3,200,000, or £2,600,000 before stoppage of cash payments.

In 1815, when the crisis terminated with the Peace, having spread itself wellnigh over five years, the Scottish circulation amounted to £3,551,496, made up as follows:—

	£5 and upwards.	Below £5.	Total.
1. From banks whose returns distinguish between notes of £5 and upwards and notes below £5 . .	£749,093		£1,947,583
2. From banks who return total circulations only, not distinguishing large notes from small			1,603,913
Grand total			£3,551,496

3. Estimated total of small notes, £2,185,498, or 61 per cent.

Notwithstanding the shrinkage in the following year (1816) from the losses in Glasgow and Leith, the circulation soon resumed and exceeded its former amount, until in 1823 it stood at £3,462,000, of which there were £2,065,000 small notes; in 1824, at £3,997,688 (£2,296,492 small); and in 1825, at the huge sum of £4,683,212 (of which £2,736,491 were small). By this time the Commercial and British Linen Company Banks had extended their branches in remote but industrious parts of the country, which accounts for a considerable part of the increase.

It is impossible to give particular statistics as to the Glasgow and provincial note issues beyond those given in connection with the Dundee bank, but it is known that Sir William Forbes & Co. acted as Edinburgh agents for seven of the largest Scots country banks, and also for Lambton & Co. of Newcastle, whose notes had a considerable circulation in Scotland from 1815 to 1826. The seven Scots banks were, the Glasgow Ship Bank, the Greenock Banking Company, the Paisley Union Bank, Hunters & Co. of Ayr, the Perth Banking Company, the Banking Company and the Commercial Banking Company both of Aberdeen, all well-founded respectable banks.

The total amounts retired by Sir William Forbes & Co. for these eight banks during a number of years stand as follows, and may give some idea of the extent of their issues:—

1815,	per year	£2,138,000,	per week	£41,000
1821,	,,	1,701,000,	,,	33,000
1822,	,,	1,528,000,	,,	29,300
1823,	,,	1,421,000,	,,	27,400
1824,	,,	1,586,000,	,,	30,500
1825,	,,	1,674,000,	,,	32,100
1826,	,,	1,487,200,	,,	28,600

The years from 1815 to 1821 and part of 1822 were increased by the notes of the East Lothian Bank; but deducting therefor £400,000 from the total of 1815, and £300,000 from 1821, there remains a larger turnover of notes in 1815 than in any succeeding year. Amongst the causes tending to reduce the use of notes, it is worth mentioning that the old worn discs of the silver coinage were entirely replaced in 1816 by new coin, which being beautifully struck and very popular must have told in some degree on the "small note" issue, and more so when the gold coinage was rectified in 1817.

With the year 1817 a sounder and more hopeful era seemed to have dawned on the country. Distress was still widespread, but the war was stopped, and every ballad-

singer was shouting at the street corners the now long-forgotten ditty—

"Oh, Boney, he's awa' from his warrings and fightings,
He has gone to a land that he never can delight ins;
He may sit down and sigh o'er the scenes he has seen a',
And forlorn he may mourn on the Isle of St Helena."

Unhappily the high prices created by the war were not allowed to fall naturally at its termination; landlords, farmers, and manufacturers alike found them so profitable that determined efforts were made to keep them up—efforts which cruelly ground the poor and did not ultimately enrich their inventors. The agricultural classes were supported by iniquitous Corn Laws, while the collapse of the Berlin Decrees left a free field for the manufacturers. Resolved to maintain the level of their former gains and enlarge them by the wondrous and varied applications of steam, a forced trade began, and over-production choked the markets. A few facts may enable the reader to grasp the revolution in trade caused by the new steam machinery. In 1782 the returns of the cotton-spinners were estimated at £200,000; and in 1803, by a regular progression, they had reached £20,000,000. The imports of cotton in 1772 were 4,764,589 lbs., and in 1818 151,000,000 lbs. Canals and improved roads opened up the country to the trade of the world as at no previous time; while the application of steam machinery to printing gave ample opportunity to scatter broadcast prospectuses for every kind of venture. *The Times* was first printed by steam power in 1814.

The year 1820 almost swept Ireland clear of banks, or bankers. The neighbouring kingdom escaped for a time, but its turn was coming. In 1821 the Bank of England finally resumed cash payments, while country banks continued to spring up in all directions. Scotland meanwhile, strong in her powerful banks, gradually lost regard for the city private and small provincial joint-stock banks. As the huge joint-stock banks extended, the smaller offices were slowly but surely compelled to adopt one of two

alternatives—either to submit to the inevitable and accept an honourable absorption by one of the large banks, or go into liquidation. Between 1808 and 1826 no less than fourteen banks had ceased to exist, of which the following issued notes:—

The Dumfries Commercial Bank, begun 1804 (Grace & Son), failed in 1808, and paid 10s. per £.

Scott, Smith, Stein, & Co.: in 1812, paying 2s. 4¾d. per £.

The Falkirk Union Bank: in 1816, paying 9s. 6d. per £.

The Cupar Bank: retired 1811.

The Glasgow Commercial Bank: retired 1820.

The Galloway Bank, formerly of Sir H. Douglas, Napier & Co., opened in 1806; retired 1821 through a bad debt of £55,000 with a firm of cattle-drovers.

The Kilmarnock Bank: joined Hunter & Co. of Ayr in 1821.

The East Lothian Bank was compelled to wind up in 1822, owing to Borthwick's evil deeds; having a good partnership, they paid in full.

John Wardrop & Co.: disappeared in 1823.

The Caithness Bank failed in 1825, its business being taken over by the Commercial Bank.

The period from 1800 onwards was that in which taxation was first directly levied from banks in Scotland. In that year a long-threatened step was taken which had serious effects on banking profits, a twopenny stamp being required to be impressed on all one pound notes. In 1805 this was raised to threepence, with the troublesome addition that no note was to be considered as properly stamped that had been in circulation for more than three years. In 1808 this vexatious restriction was got rid of, on the ground that notes did not usually last more than three years; but an additional penny was added to the duty, and a licence of £30 exacted from each bank office that issued notes. In 1815 the saving clause was added that not more than four licences were required in all. In 1815 the climax was reached as to stamp duty when the costs of war demanded a stamp duty of fivepence to be printed on the back of each pound note. These taxes, which were levied solely to aid in carrying on the war,

have not yet been repealed, although, fortunately, modified under the commutation of 1854.

The effects of these measures were serious to all the banks, but especially to the smaller private or provincial banks. Their ability to have large stocks ready for use was restricted by the heavy loss thereby incurred. Had this provision been in force fifty years earlier, it would have served to dispel certain fallacies and stop evil practices. On one occasion, at a term about 1824, when prices ran high, so low had the ready stocks been allowed to fall that one of the banks had no more notes to issue, considerable inconvenience being caused in Edinburgh in consequence, as several other banks were nearly in the same position. The additional expense incurred unhappily deterred the banks from keeping the engraving and style of their notes abreast of the mechanical skill of the time, a neglect of which the criminal classes quickly took advantage.

The forgers, who found such scope for their energies in the simple script one pound note of the Bank of England, rapidly found imitators across the Border, though happily not in the same numbers as in England. From 1806 to 1825 eighty-six persons were prosecuted in Scotland for crimes connected with this offence, chiefly for uttering forged notes, for, strange to say, no actual forgery was proved against any one; of this number, eight were executed, forty-nine transported, three imprisoned, six outlawed, and twenty acquitted, leaving sixty-six criminals. Belfast was stated to be the haunt of the forgers.

Although, in comparison with England, Scotland escaped thus lightly, a number of forged notes were put in circulation, the engravings of which might have been made as good as the genuine plates. Nearly all, however, were of coarse execution, and all made the error of printing the name of the signing official at foot of the notes. One banking house alone returned thirty-eight of these notes in little over a year, all to different people in various parts of the country. One fellow entered the shop of an Edinburgh grocer, Mr Lucas, in June 1817, and asked for

a few pence worth of nuts, tendering a guinea note of Sir William Forbes & Co. in payment, for which, after some question, he got his nuts and a one pound note and some small change, going off well pleased. Poor Mr Lucas soon found that the note was forged, but in the meantime the man had disappeared.

The banks paid several of these notes, which had got into the hands of other banks' tellers, so that some loss must have been made. In 1826 the efforts made by the Bank of England to improve its notes led to the Scots bankers preparing a memorial for the Treasury, in which, after repeating the various efforts they had made not only for the detection, but chiefly for the prevention of the crime of forgery, they sent specimens of a new style of note produced by "the most complicated machinery," pledging themselves to issue notes of that description and call in all their old notes, if the Government would give them some relief from the duties, by allowing them new stamps in exchange for all the comparatively new one pound notes of the *old issue* they should call in. It was clearly the Government's interest to accede to their prayer, as their own stamp, commonly called the "Congreve," was invariably forged, causing loss to the revenue; but there is no record that any steps were taken, the banks being left to work out their own remedy, which they afterwards did about 1830 by a finer style of note. Mr, afterwards Sir, Adam Hay of Sir William Forbes & Co., and Mr Macartney of the Commercial Bank, were the two most prominent parties in forwarding this memorial.

While thus dealing with prevention of forgery, a few horrors will bring the Newgate calendar down to date. In 1802 William Marshall, the cashier's assistant in the Dundee Banking Company, absconded to St Omer with about £35,000 of the bank's property. It was discovered that he had falsified the books so as to cause the circulation to appear as £13,000 only, whereas he had been issuing notes for his own purposes which raised the circulation to £50,000. Leaving some assets behind him, the total loss

was only about £8000. Certainly the most daring feat of the time was that known as the murder in November 1806 of Begbie, the British Linen Company's porter, in the close leading to Tweeddale Court, now the entrance to Messrs Oliver & Boyd's well-known premises. This story is graphically told in the Memoir of James Mackoull, the supposed murderer, published in Edinburgh in 1822. Begbie had come up from the Leith branch with a remittance of notes, closely followed the whole way by his intending murderer. On reaching the dark shelter of the close, the villain closed on his victim, and, stabbing him to the heart, seized the bag and escaped. He put the £680 small notes into circulation, but finding the "large" too dangerous material, hid about £3000 of them in a wall in Bellevue grounds, where they were subsequently found.

Five years afterwards the same man, with two accomplices, broke into the Glasgow office of the Paisley Union Bank on a Sunday in July 1811, finding plunder in a box sent through the previous day from Sir William Forbes & Co., containing £4000 of retired notes. With this and other £15,000 the three made their way to Edinburgh, and thence by Haddington to London, where the congregation of the wicked absorbed them for a time. Through the agency of a London detective called Boxer, £12,000 of the booty were given up by Mackoull, on condition that the lives of his accomplices should be spared. His efforts were vain; for though of avail for that particular offence, both ultimately received their reward, White being hanged at Northampton for robbing a mail-coach, and Harry French transported for burglary. The arch-villain himself returned to Leith in later years, where his audacity betrayed him. He was seized and imprisoned, and, after a bold endeavour to defeat justice by an action against the Paisley Union Bank, was condemned to death. The Government, which had mercilessly executed hundreds of starving wretches for stealing the value of 5s., or having something to do with a forged note, granted Mackoull a reprieve. He died shortly after in Edinburgh jail.

Two men, John Brown and James M'Dougal, were executed in Glasgow in 1814 for uttering forged notes. There are also records of three executions in 1817—one at Dumfries, in April of that year, of Robert Morgan, and the other two at Glasgow—for the same crime. The two last referred to—James Macneil and William Mackay—had forged in Belfast (a notorious town for forgeries) some notes of the Greenock bank, which they attempted to pass at the house of John Mackenzie, the ferryman at Govan Ferry Point-House of Kelvin. The last recorded execution took place in Glasgow, September 1821—an unfortunate woman, Anne Wilson or Moore, who had uttered *one* forged note, being the last victim of these savage laws.

On the evening of Saturday, 18th December 1824, a parcel, addressed to the Commercial Bank, was abstracted from the Stirling mail-coach, near Kirkliston, containing £275 in notes and £1400 in bills, full particulars of numbers, etc., being sent to all the banks. The last event to record is the robbery, by some London gentry, of the Greenock bank, in 1828, of £28,000 notes, most of which were afterwards recovered.

Turning from these dark pictures, we shall glance briefly at the new banks begun prior to 1825. True to its policy of expansion, the British Linen Company had strengthened its position in 1813 by increasing its capital from £200,000 to £500,000. It is disappointing to observe that the two elder banks violently opposed this reasonable measure. The first new bank was that of Messrs John Maberly & Co., an English firm of linen-merchants. The chief partner was John Maberly of Shirley Park, afterwards M.P. for Abingdon. Their office was on the west side of North Bridge, opposite the New General Post-Office, Edinburgh. In 1818 they began several branches, and soon acquired a considerable circulation for their notes. They are, however, chiefly noteworthy from having successfully beaten down the exchange on London from forty and fifty days to thirty, and subsequently to twenty. A premature attempt to reduce it to ten was profitable

neither to themselves nor the other banks whom they tried to circumvent. As the latter refused to lower their rate for drafts, Maberly's operations induced merchants having payments to make in London to draw the amount from their own banks in notes, which were taken to the new house and exchanged for drafts at ten days' date. English commercial travellers in Scotland followed the same practice, and instead of paying their collections into branches for security, to be advised to Edinburgh or London as required, they retained the notes until their arrival at Maberly's, where their pockets were at once lightened in payment of the much desired ten days' draft. By these means Maberly & Co. became possessed of large quantities of notes, for which they demanded payment in London paper at the usual note exchange currency of ten days, thus practically, though at second hand, placing on the other banks the burden of granting drafts to the public at ten days. The respective banks did not relish a procedure that deprived them of their remittance business, and at the same time reduced their circulation so summarily, and fortune soon revealed a way of harassing the common foe.

The notes collected at Maberly's branches were cut in halves for remittance to Edinburgh by separate posts, being pasted together at the head office before presentation to the issuing banks. The latter objected to this destruction of their property, as it caused waste not only of the note but consequently of the Government stamp on the back. Unfortunately for the new bankers a packet of these halved notes was lost from the mail-coach while on its way from Aberdeen to Maberly's office in Edinburgh. The second halves duly arrived and were presented for payment—£270 to the Bank of Scotland, and £220 to the Commercial Bank—Maberly & Co. offering to grant an indemnity to both banks against any claim from holders of the lost halves. Both banks declined to pay except on presentation of the whole notes, and a Court of Session action followed. The information for the two banks is

signed by Henry, afterwards Lord, Cockburn, who, having no law to support his case, abused poor Maberly as freely as he had, in 1810, rated the old Tory banks whose cause he now upheld. Pursuers' pleading was alleged to consist of "nothing but a tissue of idle abuse. They have set up the trade of dealing in money, to which unquestionably no mortal has the slightest right to object. But one mode in which they carry on their business is by cutting the notes of other banks, not occasionally or unwillingly, but in great numbers, habitually and unnecessarily. The Scissars (*sic*) are the great machine in their trade, and the knife is by no means confined to the making of pens. They cut unsparingly, systematically, and in opposition to direct and pointed remonstrances on the part of those whose property they thus impair. . . . Nor is this cutting confined to the head office of bisection at Edinburgh ; the pursuers have what they call establishments, that is manufactories for dividing notes, in almost all the great towns of Scotland." The torn and empty wrapper covering the notes had been found in Sir David Moncrieff's grounds between Perth and Bridge of Earn, showing very distinctly that the notes had been stolen. Maberly & Co. published the correspondence between the banks in the newspapers in April 1819, when a curious incident is recorded by the Commercial Bank. It was stated that they "held a note made up of so many little bits all of different notes, so well done and so small, that if all the notes whence the bits had been torn were examined, no particular tears would have been detected beyond ordinary wear. Each of the other notes (more than fifty) were thus all paid, and this one more, for it was not detected until after payment." Maberly & Co., whose case was managed by Jeffrey and Moncrieff, both well-known names, retorted they did not expect liberality from the banks, but they had a right to look for "at least civility of language and a little regard to truth."

Lord Cringletie (James Wolfe Murray) reported the case to the whole bench, who, by a majority, sustained the

defenders' case, on the ground that Maberly & Co. having been guilty of a tortious act in cutting the notes, by which the banks had suffered loss, could not maintain a plea in equity, and could not therefore demand payment for more than the halves in their possession, even upon security that the lost halves would not reappear. Maberly & Co. appealed to the House of Lords, who brushed aside the pleas which had been admitted in the Court of Session, and remitted back to the latter court to give the banks an opportunity of proving that Maberly had cut the notes maliciously. This they failed to attempt, and the full amount was subsequently paid to Maberly & Co. after some years of trouble and delay, which perhaps was all the defenders had hoped for from the commencement of the dispute.

Naturally this unfriendly squabble increased the animosity against Messrs Maberly, and ultimately the banks adopted a defence so unique in its character as to deserve some notice. In 1821 Mr Maberly made a formal request to be admitted to the privileges of the note exchange, but as he had made all his notes payable only in London as a means of defeating the hostile attacks of his enemies, his application was declined. Many of the younger banks agreed to exchange notes amicably with him, but the Bank of Scotland and Royal Bank resisted all advances. In previous years his demands for payment of notes had been rather meanly delayed by all the banks, who adopted the old corrupt tactics of Murdoch & Co. in 1760, offering to pay in silver, paying each note separately, using many light sovereigns, and so trifling as to delay his clerks a whole day ere payment was made. He did not demand gold, but gave the option of payment in gold, Bank of England notes, or drafts on London at ten days' date. Finally a new method was adopted, of which Maberly complained bitterly in his evidence before the Banking Commission of 1826. The new bankers, when determining to lower rates, had not reckoned upon an absolute fulfilment of the promise on the notes of their

neighbours; and their consternation may be imagined, when on handing across a packet of notes for usual settlement, bags of *gold* specially obtained from London, according to Maberly, were told out in payment! Argument and expostulation were alike unavailing; the promise upon the notes was to pay gold, and nothing else would be given; £30,000 in gold was paid over on the first day of the scheme. Shortly, Maberly's coffers were full of unremunerative metal, from which there was no relief save by expensive carriage to London. The banks continued this defence or conspiracy, until their disturbers were compelled to curtail their business, being unable to purchase London paper wherewith to retire the numerous drafts they had granted. Had Maberly & Co. possessed more ample means, they could easily have fought the matter out, by drawing away the enemy's specie; but the latter had shrewdly guessed the depth of their opponents' purse, and there was no course open but retreat. The mercantile business was sold to Messrs Richards & Co., in which name the factory in Maberly Street, Aberdeen, is still conducted;[1] the banking department struggled on, making little headway against the opposition of other banks, until 1832, when the firm failed, their estates being wound up under English law, heavy expenses in liquidation reducing the dividend to 4s. 5d. per £.

It is amusing to read of these proceedings being referred to with pride, in the evidence given before the Small Note Commission of 1826, as a proof of the strength and ability of the Scotch banks to meet their obligations; the real object of the measure, the conspiracy against Maberly, being carefully concealed, either from ignorance or of design, and boastful prominence given only to the fact of a Scottish bank having refused to satisfy an interloping English firm with any currency save *gold*.

It was not until December 1862 that speedy railway transit compelled the banks to lower the par of exchange

[1] Mr Richards was Governor of the Bank of England and partner with Maberly in the linen trade, see page 186.

on London from twenty days to fourteen for drafts, and in the following September from fourteen to seven; the par for transfers by advice being at the same time changed from twenty-three to seventeen, and at last to ten days. Unsuccessful as Maberly was finally, and premature in part of his work, the English banker undoubtedly effected the purpose for which he had at first come north; the shortening of the currency for drafts on London, and the Scottish mercantile public have reason to thank him for his efforts on their behalf.

Reference has already been made to the notes of 5s. which continued for many years on the West Coast and Hebrides after their prohibition by the Act of 1765. Another curious and similarly private issue of 20s. notes appeared in Stornoway about 1823-26, issued by Mr J. A. Stewart Mackenzie, husband of Lady Hood Mackenzie, the proprietrix of the Island of Lewis. No bank existed in Stornoway until 1830, and if any of these notes travelled eastward they were retired by the Commercial Bank in Inverness. In the far distant Hebrides these notes must have materially assisted as a currency in absence of ordinary bank notes; the circumstances of the issuer are unknown.

In 1821 the Shetland Bank, Lerwick, of William Hay, later Hay & Ogilvie, began business, and continued to issue notes until 1827, when in consequence it is supposed of a quarrel with a local magnate they issued notes of the National Bank for some years. Their name disappears from the Edinburgh Almanac for some years, reappearing for two years, in 1842 and 1843. Their estates were sequestrated on 25th June 1842, and dividends of 5s. were paid by the bank and 1s. 1d. from the partners' estates, losses in a mercantile business in which the partners engaged having carried off the assets. Its business was taken up by Sir William Forbes & Co. of Edinburgh, who opened a branch at Lerwick on 3rd October 1838.

Meantime the old banks and the new Commercial Bank steadily spread their branches, thirty new offices opening

between 1819 and 1826 (the Royal Bank being still content with its Glasgow branch). The Aberdeen Town and County Bank, begun in 1825, long honourably maintained its good name as the oldest independent provincial bank until its amalgamation with the North of Scotland Bank, proposed late in 1907 and carried out early in 1908.

The Arbroath bank and the second Dundee Commercial Bank followed—the former joining with the Commercial Bank in 1844; and the latter, after losing its identity in the Eastern Bank of Scotland in 1838, was swallowed up in 1863 by the Clydesdale Banking Company.

Last, but not least, came the triune National Bank of Scotland, the result of amalgamation of three different companies projected in the previous year.

Altogether, these banks added £740,000 of capital to Scottish banking, backed by strong reserves and large partnerships. The first and last named have increased the paper currency of Scotland by over £1,000,000, of which fully £550,000 are one pound notes, while the total liabilities of the National Bank now amount to upwards of £19,500,000.

CHAPTER X

JOINT-STOCK SPECULATION—THE CRISIS OF 1825, AND THE LEGISLATION OF 1826.

Gratiano. "Why, this is like the mending of highways in summer,
When the ways are fair enough."

The Merchant of Venice.

AMID the circumstances of mechanical development in the early part of the century, it is not surprising that on the return of peace speculation and over-production should have increased as they did. South America and Europe had alike regained their independence, the one from the power of Spain and the other from that of Napoleon. Foreign loans were negotiated in the London markets, amounting nominally to £52,994,571, although none of them were taken at par, while some were so low as 56 and 30 per cent. So far as the latter were concerned, Scotland was comparatively out of the danger zone, but new companies of every kind came into existence. Besides the banking companies already named, the best known of the offices which then began are The Standard Life Assurance Company and the Shotts Iron Company. In England 624 new companies arose in 1824 and 1825, with a total capital of £372,000,000, of which there was actually advanced £17,605,000; of these only 127 were in existence two years later.

As reference is made to the panic of 1825, and subsequent legislation, when dealing with England,[1] it will be

[1] See pp. 3[illegible]

unnecessary to cross the Border as to its history. In Scotland the distress did not take the form of a panic, but rather that of prolonged depression lasting over several years. Glasgow naturally suffered most, from its mercantile connection; but beyond some uneasiness, little acute distress occurred. Three small banks failed—the Caithness Banking Company (taken over by the Commercial Bank), the Stirling Banking Company, and the Fife Banking Company,[1] all bad failures for the shareholders. Against the three Scots banks, whose debts were paid in full, England presented a list of eighty bank failures.

In the early part of 1825 the old Falkirk Bank was wound up. Why it did so is not known, as each £100 share received the handsome return of £1500. The bank began in 1782, and did a considerable trade all around the Falkirk and Slamannan district, their notes having a free circulation.

This panic induced the first pointed attack of English statesmen against the banking system of Scotland. The head of the Government—Lord Liverpool—proceeded to remedy the condition of affairs, in the southern portion of the kingdom, upon incomplete premises and mistaken deductions; and secondly, in the northern portion, of whose necessities and institutions he was as events proved not well informed. To state the matter even briefly, reference must be made to the Act of 1708 (7 Anne, c. 7), which gave a monopoly of joint-stock banking combined with note issues to the Bank of England, no company of more than six members being permitted to act as note-issuing bankers. The idea of banking and note-issuing were inseparably connected in the public mind of the eighteenth century, and in consequence it was deemed more profitable to have a note issue and a small number of shareholders, than to adopt the alternative of a large

[1] Mr Boase mentions that the Fife bank reopened and struggled on to 21st May 1829, when it was closed. Calls of £5500 per share of £50 created a record of disaster to the shareholders, who however paid all liabilities.

joint-stock deprived of a right of issue. Indeed the latter system of banking does not seem ever to have been supposed legal until after 1822. The small English bankers having failed in large numbers, the loss thereby occasioned fell to a large extent on the note-holders, because the system of *deposits* was practically unknown save in London, and there were few creditors to satisfy save note-holders. Having small capital, resort was necessarily made, as in Scotland in previous years, to the granting of advances by an issue of notes, regardless of ability to retire these when presented. Advances sanctioned in this way worked out their own remedy in times of crises, by bringing the banks by scores into bankruptcy. English statesmen, not distinguishing between the imprudence of the advances themselves, and one of the media (*i.e.* £1 notes) by which they were given, came to the conclusion that the issue of one pound notes was the cause of the evil. Had they gone further, and enacted that the entire system of private bankers was radically insecure, they would have been much closer to a proper remedy. This, however, they did not see, or, perhaps seeing, did not dare to propose, their hands being tied by the privileges of the Bank of England on the one hand, while upon the other they foresaw the storm which would arise against that monopoly, if the argument against one pound notes had been carried to its legitimate conclusion, in the abolition of the whole provincial note circulation, as issued by these small bankers.

When suitable measures were in course of arrangement for England, it was resolved to deal also with Scotland and Ireland. "Because England had eaten sour grapes, the Scottish teeth were to be set on edge;"[1] a measure in which Lord Liverpool was eminently successful, though not in the way he had hoped, for no sooner did the news of his proposals reach Edinburgh, than the country rose *en masse* against them, the Scottish lion setting its teeth in a most unmistakable manner. Correspondence was carried

[1] Sir Walter Scott's Scriptural allusion to the proposed legislation.

on in various newspapers; county meetings took the matter up, from Berwickshire to Caithness, deluging Parliament with petititions and remonstrances; Sir Walter Scott contributed mightily to the cause by his letters of "Sir Malachi Malagrowther on the Proposed Change of Currency," published in February and March of 1826, and addressed to his old friend, James Ballantyne, editor of the *Edinburgh Weekly Journal.* They were eventually collected and published in the form of a pamphlet, which ran through several editions. So keen was the antipathy of some of the English members of Parliament, that on various occasions Sir Walter's letters were angrily criticised, and declared to be incentives to rebellion.

The reply of Mr Wilson Croker, Secretary to the Admiralty, was considered by English authorities to be an end of the whole matter, while upon Scotsmen it had no effect save to call forth other writers in defence of the one pound and one guinea notes.

Sir Walter Scott had little to say of a practical nature, but rather indulged in the romancing to which his old-world sympathies made him liable when dealing with the stern facts of history or finance; but few writers could have made so dry a subject gleam with brighter interest. The letters teem with allusion, incident and story, which entitle them to be reckoned as the foremost classics in the literature of the one pound note; and, as he himself admits, no sooner was his style recognised under the *nom de plume*, than "the heather was on fire far and wide."

Sir Malachi's opening sentences disarm resentment. "I am by pedigree a discontented person, so that you may throw this letter into the fire if you have any apprehensions of incurring the displeasure of your superiors. I am, in fact, the lineal descendant of Sir Mungo Malagrowther, and have retained a reasonable proportion of his ill-luck, and, in consequence, of his ill-temper. If therefore I should chance to appear too warm and poignant in my observations, you must impute it to the hasty and peevish humour which I derive from my ancestor. But, at the

same time, it often happens that this disposition leads me to speak useful though unpleasant truths, when more prudent men hold their tongues and eat their pudding." Then follows the stroke of a Scots advocate at some experiments in statute law:—"Scotland has been too often subjected to the alterations of any person who chose to found himself a reputation, by bringing in a bill to cure some defect which had never been felt in practice, but which was represented as a frightful bugbear to English statesmen, who, wisely and judiciously tenacious of the legal practice and principles received at home, are proportionally startled at the idea of anything abroad which cannot be brought to assimilate with them."

Both Lord Liverpool and the Chancellor of the Exchequer—Mr Robinson, afterwards Lord Ripon—had admitted, in a letter to the Bank of England, that "the failures which have occurred in England, unaccompanied as they have been by the same occurrences in Scotland, tend to prove that there must have been an unsolid and delusive system of banking in one part of Great Britain, and a solid and substantial one in the other. In Scotland there are not more than thirty banks, and these banks have stood firm amid all the convulsions in the money market in England, and amid all the distresses to which the manufacturing and agricultural interests in Scotland as well as in England have occasionally been subject. Banks of this description must necessarily be conducted upon the general understood and approved principles of banking."

When the letter was published, of which the foregoing is an extract, the testimony of "those counsel for the opposite side" was not lost on the legal mind of the Sheriff of Selkirkshire.[1] "No proof can be desired better than the admission of the adversary." Referring to the parrot cry, "For uniformity's sake," raised by the Government officials, and to the punishment of Scotland for the sins of England, allusion is made to an ancient and hypochondriac laird, who found it for his own wellbeing to

[1] Walter Scott.

swallow a pill every night. Calling some of his friends to supper, he invited each to take just "one leetle pill," and in spite of all remonstrances and resistance, strong or weak, according to the character of the guest, every man from first to last was compelled to bolt his pill. In a second illustration the splenetic Sir Malachi demands attention :—" I must speak to the justice of this point, sir. My respected ancestor, Sir Mungo, when he had the distinguished honour to be *whipping-boy*, or rather whipped boy, to his Majesty James the Sixth of gracious memory, was always, in virtue of his office, scourged when the King deserved flogging. And the same equitable rule seems to distinguish the conduct of the Government towards Scotland."

Amongst other publications of this period may be named "The Life, Adventures, and Serious Remonstrances of a Scotch Guinea Note," by the author of "The Letters of a Plain Man." A member of the body of Writers to the Signet, and evidently well acquainted with the leading men of the day, he gives a lucid illustration of the uses to which a small note may be put, and of the people in whose hands it may circulate.[1] The note struck by Sir Walter was largely followed, the allusions being fairly good, though scarcely equal to those of the master, indeed many of them were merely adaptations of those already given by Scott; but the writer more than makes up for this lack of literary merit, by a sounder and closer argument than Sir Malachi aspired to, of whose "Squibs" the author of "The Adventures" speaks disparagingly on several occasions.

Another writer was "Polœconomicus," whose letters in the *Edinburgh Times* of February and March 1826 contained more scientific exposition of the question than Scott or the "Plain Man" ventured upon. He points out, that when the commercial crisis broke out, it at once affected the weakest part—the English country bankers;

[1] See pages 213 and 220. The writer was Mr Robert Ainslie, 12 St John Street, Edinburgh.

and ridicules the idea of suppressing one pound notes alone, when the whole note issue was defective. "It is altogether inadequate, and, as a measure meant to be perfect in itself, is legislation ludicrously *de minimis;* as if, in a fire, one should knowingly snatch up a box of gold, and neglect a box of pearls of equal weight." He concludes as follows:—"On the general question, therefore, it seems to be apparent that the views and the measures of Government are contracted in their scope and erroneous in their object. They have been concocted hastily, without enquiry; and are not suited either to work a present cure, or to exhaust and put to rest for ever the vital question of our currency."

One of the most important petitions was that prepared apparently by some committee of notables, addressed as the "Vox Populi," to Sir Robert Peel and other members of the banking committee. After touching generally on the loyalty of Scotland and the soundness of its banks, as witnessed to by Lord Liverpool and his chancellor, it gives some particulars of the circulation of specie and paper amongst the 831 banks of Great Britain. The annual land rent of Scotland is then discussed, to prove that the note issue did not equal one year's rent, and was scarcely equal to £2 per head of population, being estimated at three and a half million pounds. Some dubious paragraphs follow on land as a medium of exchange and reserve for notes, which remind the reader of Law's writings of a hundred years before, though more carefully expressed.

The most valuable additions to banking literature of the period consist of the evidence and reports of the two committees of the Lords and Commons, appointed by the now alarmed Government, who, having fired their gun and run away, fell upon this expedient to gain some breathing-space. The Scotch bankers maintained the perfection of their system, declaring—from ignorance, possibly—the total absence of all "runs for gold," or losses from failing banks, in Scotland up to their own time. The long period

which had elapsed since 1797 might excuse them for forgetting the run of that year; while the report acknowledges, as to the failures, "that there have been only two instances in which the creditors did not ultimately receive the whole amount of the principal and interest of their debt."

Mr Kinnear, banker in Edinburgh and director of the Bank of Scotland, referred to the probable disturbance in many outlying agricultural parts of the country if the issue of one pound notes was stopped. He was ably supported on this line of evidence by several witnesses, notably the Duke of Argyll's factor, Lieut.-Col. Donald Campbell. Even more valuable evidence was given by Mr Kinnear as to the drastic effect of the note exchange system in nullifying any attempted over-issue of notes, a danger which the English members of the committee peculiarly insisted on, sometimes in much ignorance of what the note exchanges were. One English witness, Mr G. W. Norman, was asked at the Enquiry of 1840, "Have they not (in Scotland) established an extensive system of check, by exchanging each others Notes?" He replied, "There is a system, I believe, in Scotland, *but I know very little about it.*" Asked again, "Do you conceive that affords any security against over-issues?" This very intelligent witness replied, "No, I do not." Mr Kinnear's evidence[1] was particularly instructive as to the impossibility of any bank having the power to emit more notes than the public can absorb; an increased trade or higher prices will call for more currency and *vice versa*, but the amount of trade in the country fixes the amount of currency, not the will of the banks issuing such currency. While powers of *emission* were thus strictly limited, Mr Kinnear dwelt on the immense power of the forces of *immission* in Scotland. Any bank of emission is surrounded by many rivals whose self-interest it is to return against it as many of its notes as come into their hands. The contest may thus be said to be—all the banks in a given district minus one, *versus*

[1] See pp. 172-173 of the House of Lords Report, 1826.

The famous John Maberly gave some interesting evidence which has been referred to in a previous chapter. He made a sensible and practical suggestion for securing the one pound note currency. A Scottish witness had admitted that his bank's gold reserve did not exceed one-tenth of the note circulation, and the committee seemed disposed to demand special security for notes below £5. Mr Maberly's reply to an interrogation on this was, "If security were taken for notes of a higher denomination, it would give to the Creditors of the Banker holding such paper an exclusive advantage over the Creditors of that Banker in any other way, and thereby give to different descriptions of Creditors different claims upon the assets of the Banker. Therefore, I should think that if . . . Security for the issues of paper of a low denomination were taken, it would be the best currency a country can have. In this opinion I do not interfere with the general law or security of Debtor or Creditor, except to the extent of the Circulation of a Banker of the low denomination of paper."

Mr Maberly's partner in the linen trade, Mr John Baker Richards, governor of the Bank of England, who must have shared his friend's antipathy to the Scottish banks, strongly resented the inequality of permitting Scottish notes to circulate in England—although his own

partner's notes issued in Aberdeen were made payable in London! Various members of the committee advocated making notes payable also at the branches, as is still done in Ireland to some extent, but without inducing any witnesses to agree with them.

After Mr Kinnear, the best Scottish witness was Mr Robert Paul, then secretary, and later manager of the Commercial Bank of Scotland, whose evidence well repays perusal. His case was not weakened by an occasional touch of dry humour, when with the utmost courtesy he shunted some query as to the mysterious iniquity of bank notes. "Do you consider," one theorist asked him, "that the increase in your circulation during last year was the Cause or the Effect of the additional enterprise in Trade?" "It could only be the effect, in my humble opinion," he replied.

It is remarkable that the Commons committee chiefly based their argument for non-interference upon the comprehensive and well-founded principles of Scots law, which, while giving creditors ample security for their debts, also protected the debtor and commerce in general. The system of public records enabled the merchant or banker to be absolutely certain of the security of any heritable property which might be disponed to him for debt, and informed him of other properties held by his debtor, with the burdens upon each, thereby giving a fair idea of his standing and means. All secret understandings or alienations of property were valueless until they had ceased to be secret by being recorded in the appropriate registers, open to all who cared to inspect them.

With almost a touch of envy, the committee dilate upon there being no limitation to the number of partners of a banking company in Scotland. The Commercial, National, and Aberdeen Town and County banks, with their 2205 partners, might well lead them to ponder the condition of things in their own country, where not more than six partners were allowed for such companies. In 1826 each one of these 2205 was liable, jointly and severally with his

copartners, to the full extent of his fortune, for all the debts of the company in which he had an interest. The difference between the laws of the two nations was still further exemplified, in the ability of a creditor in Scotland to adjudge the heritable estate of his debtor as well as to attach the personal estate, for payment of personal debts, such as bills and promissory notes; further, recourse might be had, for the purpose of procuring payment, to each description of property at the same time; and death itself did not prevent the creditor from obtaining his legal remedy.

Although the original plans of the Government may have been hastily drawn, the questions to which their committees applied themselves were not so unreasonable as Scotsmen at the time supposed. England had just resumed metallic currency for all sums under £5, and it was considered unfair to that country that Scotland should be allowed still to avail herself of a paper currency for smaller amounts. A curious calculation was drawn up on this point in 1826 by an Edinburgh banker, Mr Borrowman, for some years accountant to Sir William Forbes & Co., in which an attempt is made to prove, that from the poverty and the smaller population to the square mile in Scotland than in England, the latter ought to be possessed of a currency five times the value of what was suitable for Scotland, and that therefore the five pound note of England only placed her upon an equality with the one pound note of Scotland.

The serious error of reckoning the currency of Scotland at £2,847,000 only, instead of £4,000,000 in round numbers, deranges the author's argument; but his contention is a reasonable one, and applies even yet, when the population of Scotland is only 157 per square mile to the 629 of England. The greater distances at which such centres as Wick, Lerwick, Aberdeen, Berwick, Thurso, Edinburgh, Inverness, Glasgow, and Dumfries are placed from each other, without the gaps between them being filled up, necessitate a currency of such a nature as will cost less

for transit than metal, and be more secure against theft, from the case with which it can be concealed in transmission. The natural wealth of Scotland is not equally distributed over the whole extent of her surface; consequently, when capital or material have to be removed from one part to another, the distances traversed have often to be much greater than in England, and the charges are therefore proportionally increased. For example, coal is found in various parts of England, but only in the central lowlands of Scotland to any extent; the cost of carriage to other parts is therefore heavier, inasmuch as railways do not profit by a heavy local traffic as in England, but have to pass through many miles of absolutely unproductive country, not getting a single passenger except those going considerable distances. The geographical features of Scotland thus make railways more difficult to engineer, slower when constructed, and dearer to the traveller than those of the South. It would be difficult, if not impossible, to strike the exact balance of advantage in the required currencies of England and Scotland; but from the foregoing observations, it may be seen that Scotland to the above extent needs a cheaper currency than England, and would incur a loss if her present currency were taken from her—a loss which would have been much more serious in 1826 than now, but which would still shut out banking facilities from many parts of the country where they are required and valued.

To this question the committees of the Lords and Commons do not appear to have given much attention, although a large body of evidence bearing upon it was placed before them. Arguing that, on general principles, the rule which had been adopted for England should also be applied to the other parts of Great Britain, they considered that the common burden should be spread over as wide a field as possible (forgetful, apparently, according to the Edinburgh banker, of the greater number per square mile to bear the burden in England than in Scotland), as "The wider the field over which a metallic circulation is

spread, the greater will be the security against its disturbance from the operation of internal and external causes, and the lighter on any particular part will be the pressure incidental to a sudden contraction of currency"—a statement which the branch system of Scotland has proved to be more true regarding a paper currency, than it was supposed to be of one of metal.

The committee then referred briefly to the claims of Scotland for an exemption from the rule which they had laid down for their general guidance—such as the existence of one pound notes from the earliest days of Scottish banking; the concurrent progressive increase in manufactures, agriculture, fisheries, and wealth; the stability of the banks, and the reliance placed in their notes in times of panic or distress. It was admitted that, for twenty years prior to the Restriction Act, the two countries were in precisely the same position to each other as they would be in the future, one pound notes having been altogether prohibited in England from 1777 to 1797, without any serious consequences arising from their currency in Scotland. And, lastly, the evidence led upon the reduction of the number of branches and closing of cash credits was so unanimous, that though the committee did not think the dislocation would be so serious as was anticipated, yet they were "unwilling, without stronger proof of necessity, to incur the risk of deranging, from any cause whatever, a system admirably calculated to encourage the use of capital, to excite and cherish a spirit of useful enterprise, and even to promote the moral habits of the people, by the direct inducements it holds out to the maintenance of a character for industry, integrity, and prudence."

Only two possible dangers were alluded to—the circulation of Scots one pound notes in England, and the increase in forgery. As to the former, the directors of the Bank of England, in their evidence, urged no objection to the *status quo*, provided suitable measures were taken to keep the Scottish notes out of England; while the dread of forgery was dismissed in few sentences. The final verdict of the

Commons committee was: "Your committee cannot advise that a law should now be passed prohibiting the future issue in Scotland of notes below five pounds."

The opinion of the Lords was statesmanlike and concise, and is given verbatim:—"With respect to Scotland, it is to be remarked that, during the period from 1776 to 1797, when no small notes were by law issuable in England, the portion of the currency of Scotland in which payments under £5 were made, continued to consist almost entirely of notes of £1 and £1. 1s., and that no inconvenience is known to have resulted from this difference in the currency of the two countries. This circumstance, among others, tends to prove that uniformity, however desirable, is not indispensably necessary. It is also proved by the evidence and by the documents, that the banks of Scotland, whether chartered or joint-stock companies or private establishments, have for more than a century exhibited a stability which the committee believe to be unexampled in the history of banking; that they supported themselves from 1797 to 1812 without any protection from the restriction by which the Bank of England and that of Ireland were relieved from cash payments; that there was little demand for gold during the late embarrassments in the circulation; and that in the whole period of their establishment there are not more than two or three instances of bankruptcy (!) As during the whole of this period a large portion of their issues consisted almost entirely of notes not exceeding £1 and £1. 1s., there is the strongest reason for concluding that, as far as respects the banks of Scotland, the issue of paper of that description has been found compatible with the highest degree of solidity, and that there is not, therefore, while they are conducted upon their present system, sufficient grounds for proposing any alteration, with the view of adding to a solidity which has so long been sufficiently established."

The Act of 1826, 7 George IV., c. 6, was passed prohibiting notes under £5 in England, followed in 1828 by 9 George IV., c. 65, which provided that on and after 5th

April 1829 no bank notes issued in Scotland, Ireland, or elsewhere out of England, should be uttered or negotiated

	Names of Firms or Banks, and Date of Establishment.	Head Office.	No. of Partners.	No. of Branches.
	Bank of Scotland, 1695	Edinburgh	Charter	16
	Royal Bank of Scotland, 1727	"		1
	British Linen Co., 1746	"		27
	Aberdeen Banking Co., 1767	Aberdeen	80	6
	Aberdeen Town & County Bank, 1825	"	446	
	Arbroath Banking Co., 1825	Arbroath	112	
	Carrick, Brown, & Co., or Ship Bank, 1749	Glasgow		None
	Commercial Banking Co. of Scotland, 1810	Edinburgh	521	31
9	Commercial Banking Co., 1778	Aberdeen	15	None
10	Dundee Banking Co., 1777	Dundee	61	None
11	Dundee New Co., 1802	"	6	1
12	Dundee Commercial Bk., 1825	"	202	None
13	Dundee Union Bank, 1809	"	85	4
14	Exchange & Deposit Bk., 1818	Edinburgh	1	4
	Falkirk Banking Co., 1787	Falkirk	5	1
16	Fife Banking Co., 1802 (discontinued 1825)	Cupar-Fife	39	
17	Greenock Banking Co., 1785	Greenock	14	
18	Glasgow Banking Co., 1809	Glasgow	19	
19	Hunters & Co., 1773	Ayr	8	
20	Leith Banking Co., 1792	Leith	15	
21	National Bk. of Scotland, 1825	Edinburgh	1238	
22	Montrose Bank, 1814	Montrose	97	
23	Paisley Banking Co., 1783	Paisley	6	
24	Paisley Union Bank, 1788	"	4	
25	Perth Banking Co., 1766	Perth	147	5
26	Perth Union Bank, 1810	"	69	None
27	Ramsays, Bonars, & Co., 1738	Edinburgh	8	None
28	Renfrewshire Bnkg. Co., 1802	Greenock	6	5
29	Shetland Bank	Lerwick	4	None
30	Sir William Forbes & Co., 1723	Edinburgh	7	None
31	Stirling Banking Co., 1777	Stirling		3
32	Thistle Bank, 1761	Glasgow		None
33	*Thomas Kinnear & Sons, 1748	Edinburgh		None
34	*Donald Smith & Co., 1773			None
35	*Robert Allan & Son, 1776			None

* Private bankers, who did not issue notes.

in any part of England. With these enactments the question of Scottish currency went to sleep for nineteen

years, after the most vigorous awakening it had received since 1765.[1]

A list of the banks of issue in Scotland at 13th February 1826, shewing the number of partners, and number of branches, if any, is given opposite.

The following is the circulation of the Scots banks in 1825, taken from the report of the committee, from information supplied by the different banks. Some of them did not distinguish between small notes and large, but the committee estimated the proportion as indicated by the figures marked with an asterisk :—

Note Circulation.	£5 and upwards.	Under £5.	Total.	Per cent. of £1 Notes.
Highest Amount	£1,118,896	£1,572,828	£2,691,724	
	*827,825	*1,163,663	1,991,488	
	£1,946,721	£2,736,491	£4,683,212	58
Lowest Amount	£752,461	£1,200,025	£1,952,486	
	*570,990	*910,623	1,481,613	
	£1,323,451	£2,110,648	£3,434,099	61

A comparison of the proportions of £1 notes and those over £1 for the years 1815, 1821, 1823, and 1824 shews the same results as above in 1825. When the circulation is high, the excess is caused by the large notes, and when low the percentage of £1 notes rises. Both amounts shew an increase of about £700,000 over 1824, of which £400,000 was in 20s. notes. It may be observed that the difference between the highest and the lowest, £1,240,000, is almost exactly what it is at the present time—a coincidence indicative of two opposing causes of elevation and depression. The first may be found in the excessively high prices of 1825, which, by reducing the relative value of money, forced an increase of

[1] As to appreciation of Scottish bank notes in the north of England, see pp. 366 *et seq.*

notes to effect the same work as formerly. This high level, of necessity, shrank violently when prices collapsed towards the end of the year, and extended the difference between the extremes. The other cause, which has tended to decrease the proportional advance of notes since 1825, is the vast increase in the cheque system, which has only come into existence since that year, and is as reasonable an advancement on bank notes, for its own special purpose, as the latter were on a metallic currency. Each now has its place—coin as the reserve basis of all; notes, the public currency; and cheques, the private medium of the innumerable settlements of commerce—three separate offices which about two hundred years back were performed by metallic currency alone.

CHAPTER XI

1826-1844

LAST EFFORT OF LOCAL BANKING, AND ITS GRADUAL ABSORPTION BY NATIONAL BANKS — EXTINCTION OF PRIVATE BANKING—INCREASE OF BRANCHES—PANIC OF 1837—THE END OF THE FREE NOTE ISSUE.

Macbeth. "I have lived long enough ; my way of life
Is fallen into the sear, the yellow leaf ;
And that which should accompany old age—
I must not look to have ; but, in their stead,
Curses not loud, but deep, mouth-honour, breath,
Which the poor heart would fain deny, but dare not."

SHAKESPEARE

It may have been observed by students of the parliamentry reports of 1826, that the principal Scottish witnesses were connected more or less directly with the large joint-stock banks of Edinburgh or Glasgow, few of the local joint-stock banks or private bankers having much to say for themselves; for though Mr Kinnear, the well-known banker, appeared as a witness, it was chiefly as a director of the old bank. This fact is not without significance in the light of subsequent history, for it shews the value which was put upon the one pound note by the leaders of those institutions, who required its powerful aid to establish branches throughout the country.

Whether it be that the smaller local banks had begun to see the weapon of destruction one pound notes would prove to be against their own form of banking when utilised by the large banks to open branches, it is impossible

to say; but the fact is worth remarking, that the chief opposition to the proposed legislation came from Edinburgh and Glasgow, and the county committees—provincial bankers, with few exceptions, remaining passive. A significant indication of governmental opinion as to joint-stock banks was given in 1831, when the Commercial Bank obtained a royal charter on the ground that it was the first such bank after a lapse of half a century which had been established on the principle of a joint-stock society extending over the whole of Scotland. In the same year the National Bank also got a charter.

In 1829 the small fragment of the intended legislation for Scotland came into force—the Act 9 Geo. IV., c. 65, prohibiting Scottish or Irish notes under £5 from being issued in England.

For several years after 1826 branches were steadily extended, few being withdrawn compared with the period 1800-15. Between 1819 and 1830, forty-eight new offices had been opened, and between 1830 and 1840 the seven leading banks opened other 110 branches, making over 300 branches throughout Scotland. It is well to bear in mind that all were begun by means of the small note issue, which alone could make them profitable for the time. The "note" was the unseen engineer, mining its way through the country, "hoisting" the unhappy local bankers, by its connection with the influential establishments which issued it, for large joint-stock banks alone would satisfy the people. Signs were not wanting among the local and private bankers that an effort must be made to meet the increased requirements of the time. These requirements were not little, for Europe, under the enjoyment of profound peace (only broken by the struggle at Navarino), was increasing in wealth rapidly. In Britain this was at first tempered by the distress arising amongst the working classes, from the want of labour, and the restrictions of the Corn Laws. Cholera ravaged Scotland severely in 1832, its influence being alarmingly felt in Edinburgh, not so much from the

direct effects of the plague, as from its dreadful havoc in surrounding villages. Several small banks failed, and others amalgamated[1] for mutual strength; while one, the second private banking house in Scotland, Ramsays, Bonars, & Co., gave up their business about 1837. The Clydesdale Bank still occupy the site of their office in the High Street of Edinburgh, though formerly it entered from the Exchange Square. Of this noted firm Sir William Forbes writes—"From a slender outsetting as a draper, old Mr James Mansfield began to deal a little in bills of exchange, and by degrees founded a banking

[1] BANKS AMALGAMATED.—The Montrose Bank of 1814 was dissolved in 1829, its business being taken over by the Dundee Union Bank.

The Commercial Banking Company of Aberdeen joined the National Bank in 1833.

The Perth Union Bank of 1810 joined the National Bank in 1836.

In 1837 the old Paisley Bank gave up its business to the British Linen Company. It was the second bank to establish a branch in Glasgow, which it did in 1784, one year after the Royal Bank. Its notes were peculiarly well engraved and artistic in design, containing a good engraving of the famous abbot, George Schaw, and the three shields of the Stewards, the Hamiltons, and the Schaws, which appear in the town's arms. Other banks are mentioned in the text.

BANKS FAILED.—In addition to the foregoing disappearances, the following banks failed:—

James & Robert Watson, begun as David Watson in 1762, changed into a firm name in 1793, failed in 1832, paying 4s. 9d. per £. They did not issue notes; did a large business as agents in Glasgow for other banks.

John Maberly & Co., exchange and deposit bankers in Edinburgh, Montrose, and Aberdeen, failed in 1832.

Kinnear, Smiths, & Co., formerly Thomas Kinnear & Sons, who had joined Donald Smith & Co. in 1831, failed in 1834, with liabilities of £320,000, paying 11s. per £. Mr Kinnear was long a director of the Bank of Scotland, and his firm issued its notes. Mr Smith was killed in 1833, by the fall of a floor at the sale of Lord Eldin's paintings.

Robert Allan & Sons, of 1776, failed in Edinburgh in 1834, with liabilities of £108,000, paying 4s. per £. They did not issue notes.

James Inglis & Co., Edinburgh, formerly Inglis, Borthwick, Gilchrist, & Co., of 1807, failed in 1835.

house of the first celebrity in Scotland." Known as Mansfield & Co. from 1738, the firm changed in 1761 to Mansfield, Ramsay, & Co. Mr William Ramsay, jun., was a convivial old gentleman, and in 1816 was Master of the Merchant Company. Among other notable partners of the firm was Sir James Stirling, Lord Provost of Edinburgh, who in 1792 had to quell the fury of the political mobs by military force, having himself taken refuge in the Castle. There was great dearth in the city during part of his provostship, 16,000 people, or one-eighth of the whole populace, having to be fed by charity. The bank office in his day was in Cantore's Close, Luckenbooths, High Street. One of his distinguished successors in the provostship, and also as partner in the bank, changed in 1807 to Ramsays, Bonars, & Co., was Sir John Marjoribanks, Bart., of Lees. Several partners of the firm served on the directorate of the Royal Bank for many years, a connection which ended in violent rupture in 1816, on an allegation that their presence at the board was being used for the promotion of the private firms' interests rather than those of the Royal Bank.

In about six years the list of Scottish banks was reduced by thirteen. To take the place of the failures, and to carry on the vastly increased business which rose rapidly from 1833, new banks were originated of a totally different character, having joint stocks with large capital and proprietary, and unlimited liability; even the new chartered banks being unable to escape this dangerous security.

Of the five new banks then begun, only two survive. The first was the Ayrshire Bank in 1830, having nine branches at Kilmarnock, Maybole, and elsewhere in the county. It joined the Western Bank in 1847, a year of stress and disaster to the latter, which, however, did not debar them from paying the large premium of £60,000 to the proprietors of the Ayrshire Bank. In the same year, 1830, came the Glasgow Union Banking Company, which (though opening quietly in Post Office Court, looking out

upon the Trongate and Candleriggs), by a wise policy of expansion and amalgamation soon took a front rank among the Scottish national banks. Its partnership of 488 members was influential and wealthy, and no opportunity was missed of prudently extending the scope of the bank's operations. The paid-up capital was at first £350,000, raised in April 1843 to £500,000, and in November of the same year to £1,000,000.

The following copy of the balance-sheet submitted to the first meeting of shareholders, amusingly illustrates the meagre information which banks at that time, from jealousy of one another, supplied to their partners:—

Abstract of the affairs of the Glasgow Union Banking Company on 30th April 1831.

To Assets of the Company	. £748,804	By Obligations of the Company	£748,804 9

In 1836 the bank was the first in Britain to submit a more detailed balance-sheet, which, in 1858, again in advance of the other banks, was extended still further by distinguishing in the general mass of assets between advances on bills, cash credits, Government stocks or investments, and cash on hand or in London respectively: a wise and progressive step which anticipated the demands of the Companies Acts by several years, and which, with some of the banks, was not adopted until 1865, so strong was the tradition in favour of secrecy, a tradition not yet quite dead, as witnessed by the objection to the presence of newspaper reporters at annual meetings.

In 1836 the bank acquired the business of the old and respectable Thistle Bank of 1761. In 1838 the Paisley Union Bank was annexed, and in the same year a footing was effected in Edinburgh by a junction with the ancient house of Sir William Forbes, James Hunter, & Co., the successors of Coutts & Co., with their four curiously placed branches, Inveraray, Johnstone, Lerwick, and Stranraer. Both banks retained their separate designations until May

A study of the contrast of the Union Bank's career with that of the next bank to be noticed is deeply instructive. Both arose in the same mercantile city, in the same decade, had the same opportunities, were exposed to similar dangers, and were equally energetic in their policy of expansion. Here, however, the analogy ends, the conduct of the first being marked throughout by the same thoroughness, good policy, and prudence which has made the name of Forbes long memorable in banking history. The career of the other, the Western Bank, was from its earliest years marked by every folly which a banker should avoid. It opened in Glasgow in 1832 with a capital of £209,000, and mistaking mere energy for wisdom, they early developed an immense business, which, as events proved, was to cost the leaders of Scottish

banking many anxious reflections during the following twenty-five years. In 1834 the Central Bank of Scotland opened at Perth with a capital of £80,000; and lastly, the North of Scotland Bank began in Aberdeen the healthy and expansive business which now leaves it the sole survivor of provincial banking in Scotland: if indeed the term "provincial" can be properly applied to an institution having offices in Edinburgh and Glasgow and many of the other large towns of Scotland.

The return of more prosperous days in the commercial world led to the overtrading of a fictitious kind, for capital accumulations were checked by prolonged agricultural distress. The railway mania was shewing its beginnings, but joint-stock banking was the favourite investment, both in England and Scotland. At the time that many of these English banks (numbering nearly 220 in the years 1835-36) commenced business, the London foreign exchanges were close upon par, with indications of a further adverse movement. High rates of interest in America had already proved attractive to investors, and gold left the country in considerable quantities, reducing the exchanges to par. To these signs the new joint-stock English banks paid no attention. Sanguine of their new-born liberty, and as energetic as they were inexperienced, they had all their lessons to learn, and extended their note issues for £2,799,000 in December 1835, to £4,258,197 by the same month of the following year, their business otherwise being rashly extended for the flotation of innumerable schemes, to finance which they re-discounted all their bills, and thus created an unwieldy fabric of credit on a very insufficient basis of capital. The first bank crash came at the close of 1836, in Ireland, where joint-stock banking was as recent and inexperienced as in England; a bank in Manchester, and various other institutions, applied to the Bank of England for assistance. Meantime American banking had been running a wild career, and was rapidly approaching the Niagara of May 1837, when nearly every bank in the Union suspended cash payments, with a loss

to the Government and their creditors of ninety-one millions sterling, of which Britain is supposed to have lost ten millions. In 1838 the Bank of Belgium failed, and France also suffered severely. The crisis was peculiar in its continuance over a series of years to 1839, "one woe following on another's heels" in rapid succession in Ireland, England, America, and the Continent.

In the heavy losses and banking failures which ensued, Scotland had little share; the Western Bank not having developed its peculiar style of banking to an extent beyond remedial measures. Under the guise of a joint-stock, then deemed infallibly safe, this bank had gained an undeserved credit amongst depositors, and was besides hugely admired by the impecunious adventurers, ever in need of cash accommodation. Beginning business in 1832, two years sufficed to obliterate the memories of 1826, and revive in full force the delusions of Douglas, Heron, & Co.; there was the same reckless discounting, with waste of capital, deposits, and note circulation upon a speculative market, and the same supreme indifference to reserves of Government securities or other convertible assets. So early as 1834 their London correspondents dishonoured their drafts, and they were compelled to ask assistance from the Edinburgh banks. This was reluctantly given, on condition that it should be utilised in the purchase of Government funds to be retained as reserve. This check had merely a temporary effect, to be forgotten in four years, for the bank was again arrested in 1838 by the Scottish banks.

In view of the banking catastrophe in the United States, the bank failures in England and Ireland and the increase of joint-stock banking in Scotland along somewhat precarious lines, the chief Scottish banks resolved to increase their coin and investments in Government funds—the latter having been somewhat checked for a number of years from 1810, by the action and influence of the Commercial Bank. The Western Bank was invited to join in this broadened basis of security, but received this

second remonstrance with virtuous indignation, upon which its directors were told, that after the 21st of July in that year the other banks would decline to receive their notes. Prior to 1765 in the previous century this measure would have been matter for gratification to the defaulting bank, as its only effect then would have been to increase the issue—in 1772 it was on the directly opposite policy that the Bank of Scotland collected as many of Douglas, Heron, & Co.'s notes as they could, and returned them for payment, receiving in exchange short dated bills on London, thus bringing about that bank's collapse more speedily—but in 1838 the Western Bank could not afford the loss of *prestige* which would have followed the refusal of its notes at the numerous branches (now over 250) established throughout the country, and it submitted with a bad grace. Notwithstanding this concession, the other banks deemed it their duty to send a memorial to the President of the Board of Trade, Mr Poulett Thomson, who in consequence of the information supplied, refused to grant the Western Bank the charter they had applied for. The position of Scottish banking in 1838 is indicated by the following figures:—

Names.	Partners.	Branches.	Capital.
Bank of Scotland . .	672	25	£1,000,000
Royal	764	7	2,000,000
British Linen . .	164	42	500,000
Commercial . . .	521	48	600,000
National . . .	1238	33	500,000
12 Joint-Stock Banks .	4128	72	1,937,700
	7487	227	£6,537,700

In this year—1838—several other banks came into existence, the Clydesdale Bank in Glasgow, the Caledonian Bank in Inverness, the Eastern Bank in Dundee, the Edinburgh and Leith Bank, the Paisley Commercial Bank, and the Southern Bank of Scotland in Dumfries. Of these only the first has withstood the assaults of time, having in the interval absorbed three of its cotemporaries above named—the Eastern Bank, the Edinburgh

and Leith Bank, and the Southern Bank—which, failing to get the support expected, joined the Edinburgh and Leith Bank in 1842. The Paisley Commercial Bank only survived a few years, and flung its career away upon the Western Bank in 1844.

The year 1839 was a black-letter year in Scottish banking history, for in it the City of Glasgow Bank saw the light. In 1840 four banks opened which have all disappeared, and with these the era of free banking came to an end.

In 1843 the Greenock Bank of 1785 was lost in the Western Bank, but the partners are said to have obtained a large premium. They had developed a good business in the West Highlands, and their notes had an extensive circulation in Cumberland, Westmorland, and the Isle of Man, to the exclusion of local issues.

In 1842 the Leith Bank of 1793 was sequestrated, with debts of £123,582, of which £10,000 were notes outstanding, paying 13s. 4d. per £. They were notable for having invaded England, where in their Carlisle office their notes were freely circulated. The Shetland Bank and the Renfrewshire Bank, both closed in the same year, have already been referred to. In 1844 the Dundee Union Bank joined the Western Bank, and the Commercial Bank bought up the Arbroath Bank, for many years a very successful and well-managed little office. Their capital had been £100,000 paid up, and their circulation consisted almost entirely of one pound and one guinea notes.

CHAPTER XII

1844-1845

A RETROSPECT OF THE PLACE AND POWER OF THE ONE POUND NOTE DURING THE FREE ISSUE—THE ACT 8 & 9 VICT., C. 88, AND ITS EFFECTS.

"Weel, weel, my Lords, that's the end o' an auld song."

SO said Lord Seafield, the last High Chancellor of Scotland, when in 1707, with a laugh on his face and sorrow at his heart, he put his seal to the Treaty which was to end the ancient *régime*. Tradition says he had English gold in his pocket, which, if true, would scarcely lighten the load elsewhere. To a lover of his country, who has searched through the story of its banking, with all its evils and varied defects, it is impossible to consider the end of the "auld song" without experiencing feelings of regret.

The law of Scotland, under which the banking and note system were founded, had its origin in that ancient law of Rome whose principles seem applicable to every age of mankind—principles which enable the different creations springing out of them, not merely to meet the necessity of the time which gave them birth, but, partaking of the nature of their parent, to adapt themselves to each new condition emerging on the ever-changing stream of life.

It has been seen that at the outset, in 1695, the ancient Scottish law had no limit to the free issue of bankers' notes, nor did the Scottish judges seek to put obstacles in the

way of their negotiability. In England both of these positions were reversed. The Bank of England had, in 1694 and 1708, obtained a monopoly of note-issuing so far as joint-stock banks were concerned; and it required a special Act of Parliament to undo the effects of Lord Holt's decision against the negotiability of promissory notes. The only restriction in Scotland—the twenty-one years' monopoly to the old bank—may probably be traced to the influence of the Englishman who drew up the constitution for the new Scots bank, and had no lasting effect, as it dropped out of sight in 1716.

After tracing, therefore, the history through the vicissitudes of a century and a half, down to a period when the accumulated experience of these long years seemed to have cast aside nearly all that had marred or hindered true progress, it is matter of deep regret—even if from the economist's view alone—that these free institutions which were themselves the embodiment of that experience should not have been permitted to complete and carry on their work unimpeded. The best aims of Sir Robert Peel for a safer system of banking were already being worked out in Scotland to a successful issue, at the very time when his famous Act appeared to mar rather than complete the long-required results.

Before entering on a retrospect of the place and power of the £1 note during the free issue, let the reader glance, by way of authority, at Macaulay's sketch of the scene upon which the bank note made its debut, and the character of its rivals on the road to fame:—"In the autumn of 1695 it could hardly be said that the country possessed any measure of the value of commodities. It was a mere chance whether what was called a shilling was really tenpence, sixpence, or a groat. . . . Three eminent London goldsmiths were invited to send a hundred pounds each in current silver to be tried by the balance. Three hundred pounds should have weighed about twelve hundred ounces. The actual weight proved to be six hundred and twenty-four ounces. The same test was applied in various parts

of the kingdom. The evils produced by this state of the currency were not such as have generally been thought worthy to occupy a place in history. Yet it may well be doubted whether all the misery which had been inflicted on the English nation in a quarter of a century by bad kings, bad ministers, bad parliaments, and bad judges, was equal to the misery caused in a single year by bad crowns and bad shillings. . . . When the great instrument of exchange became thoroughly deranged, all trade, all industry, were smitten as with a palsy. The evil was felt daily and hourly in almost every place and by almost every class—in the dairy and on the threshing-floor, by the anvil and by the loom, on the billows of the ocean and in the depths of the mine. Nothing could be purchased without a dispute. Over every counter there was wrangling from morning to night. The workman and his employer had a quarrel as regularly as the Saturday came round. On a fair-day or a market-day the clamours, the reproaches, the taunts, the curses were incessant; and it was well if no booth were overturned, and no head broken. No merchant would contract to deliver goods without making some stipulation about the quality of the coin in which he was to be paid. Even men of business were often bewildered by the confusion into which all pecuniary transactions were thrown. The simple and the careless were pillaged without mercy by extortioners, whose demands grew even more rapidly than the money shrank. . . . The ignorant and helpless peasant was cruelly ground between one class which would give money only by tale, and another which would take it only by weight."

Such, then, being the field on which bank notes were first issued, in England and in Scotland, their primary duty was to carry on and enlarge the work which the metallic currency so inadequately performed. Gold was extremely scarce, and was seldom seen, the bulk of payments was made in the clipped, worn, rudely made, and often spurious, discs which struggled to pass current as

silver coin. From such competitors it may be imagined bank notes had little to fear, the small note specially so, for it was the lack of a currency of small amounts that was most keenly felt by the mass of the population. Merchants could make a shift with bills of exchange for their larger transactions, but the millions of small traders, workmen, farmers, and labourers were powerless to extricate themselves from the whirlpool of confusion to which their rulers had abandoned them. When therefore their merits were once understood, the nation turned with thankful eagerness from this rude and wrangling barter in bags of metal to these "*papers*," representing "rights" only, but "rights" which general confidence in the issuers had converted from *jus ad rem* to *res* itself. Their steady equal value, when compared with the varying silver coin, soon led them to be regarded in the same way as money is now defined. They were, first, a general measure of value; and, second, a general medium of exchange. It is unnecessary to remind the reader, that, being intrinsically worthless as mere pieces of paper, their whole basis was one of confidence on the part of the receiver, and of prudence on behalf of the grantors; but they fairly filled up, indeed they performed better than *anything that then existed*, the functions of money. Uniform in value, portable in size, and though not of great value yet truly representative of value; and, lastly, their comparison in the first respect with the former coin currency made them in the public estimation "something desired or demanded." In these different offices they saved time in calculation, steadied prices, gave a more uniform measure of value, and prevented expense for carriage of coin to the merchants and people of the early years of the eighteenth century. In a few years their PLACE and POWER were assured. By their agency, in small degree at first, but in greater volume as time went on, one pound notes assisted in opening up the country to civilising influences. The different markets were then separated from each other by tracts of uninhabited waste, across which it was dangerous to travel, alike from the

terrors of robbers as from the inclemency of the seasons. Roads were present merely as tracks worn into the soil by centuries of use, along which strings of pack-horses crept from town to town several times in a year, forming the only general means of conveyance open to the public. To settle a debt of £1200 Scots (equal to about £100 sterling), by forwarding a bag of silver weighing from eighteen to twenty pounds, was clearly as direct a stoppage to trade as any legal enactment could have effected. Nor did the bills of exchange then current amongst merchants meet the difficulty, for, as John Coutts's cash-book shewed, even down to 1740, in the best of credit, Lord Provost of Edinburgh, and widely acquainted as he was, he had yet the greatest difficulty in arranging payments and exchange in different towns, from the total absence of any agency in these places by which it could be undertaken. A payment of £100, made in small notes, would not weigh a three-hundredth part of a bag of silver for that amount, and could be hidden with ease about the person of the traveller; so that any merchant or trader, in his long journeys across country to some fair, vastly lessened his labour, risk, and inconvenience by the new medium of exchange.

From any dangerous part of the country, where silver could not with safety be risked, and on which there was no facility for obtaining a bill of exchange, trade was shut out, and could not be commenced. Or if by good fortune "exchange" could be bought on the particular place to be visited, the first trouble was, that it had to be bought and a commission paid, while bank notes could be drawn from the bank free of charge; secondly, there was the risk of non-payment of the draft by the drawee, which compelled the would-be trader, on arrival at his destination, to cash his draft before he made any purchases, lest at the end of the day he should not be able to obtain the money wherewith to pay his creditor. In this way he was exposed to a third expense, for although compelled to get ready cash, he might not find anything to purchase to his mind, and would thus have the disagreeable alternative of buy-

ing that which he did not require, or of repurchasing a bill of exchange on the town from whence he came.

It is not surprising that trade was slow to enter the straths of Scotland, having such difficulties to overcome; or that merchants should hesitate ere risking journeys as profitless as Gilpin's to the village of Ware. While this was the condition of the trader before bank notes were introduced, let us follow him a few years later, with the same slight swelling of clothes in the cardiac region which still betrays the "bundle" of notes in the modern drover. He might have a stouter stick long ago than is now needful, or if from the far north it is possible a dirk might be lurking amid the notes, ready on small provocation to settle accounts with "summary diligence"; but whether the particular individual be highland or lowland, the numbers of "shepherd callants and lowland lairds" from the south, "hob-nobbing" with the "shentlemen drovers and crofter craturs" from the north are astonishing. Would it be wrong to suppose that this wonderful change was at least helped on by the "sma' note"; and that the highland drover forgetting the "guid auld days o' ruggin an reivin," had at last found a safe and ready means of selling his shaggy clean-limbed cattle to the southron in exchange for a portable and concealable kind of money?

If two races so irreconcilable as the Celt and Saxon found common ground for increased trade by means of bank notes, how much greater must have been their power in the settled parts of the country in which they soon found their place. Acting the part of local bankers before any existed, they gradually accumulated in the hands of people far distant from the bank town. They, pondering what to do with this new form of wealth, hear that the bank, whose notes they have learnt to respect, will give them £3, or £4, or £5 per cent. per annum for money lodged with them on deposit. There may be some dubiety, possibly, as to whether the bank does not mean any other money than its notes, which experience soon settles. The smallness of the packet in which his wealth

is wrapped, enables the new depositor to journey to town with comparative ease. There the "right," the *jus ad rem*, is presented to the bank, and then comes the moment "of trial." No matter what they are considered outside, at the bank they are only a right to a thing signified, not the thing itself. It is possible that the cautious capitalist would first ask for gold or silver, and then pay in the coin as a deposit? Such things have been done in the nineteenth century, and there is no reason to doubt of their having been done in the eighteenth.

Our note having thus returned to the bank in its travels, brief notice may be taken of the dangers and abuses of the issue in the early times of banking, before dealing with the effect on deposits.

Save with William Paterson and a few other sensible men, the haziest notions were afloat at the beginning of the banking era as to the necessity of the rapid convertibility of paper money. If gold or silver needed no conversion, why should paper notes require it? "Land was the only true measure of value or medium of exchange"—surely a more gross form of filthy lucre than the metals burdened with that epithet. As the land-bank delusion never got a footing in Scotland, it is unnecessary to mention it further than as shewing the unsound ideas prevalent upon paper currency. It also gives an estimate of the difficulties the Bank of Scotland had in choosing the path of safety. That they desired to profit by the experience gained in 1704 and 1715 is evident, from their views expressed in the "Historical Account of the Bank," the author of which, in 1727, says: "For the quota of credit in a banking company must be proportioned to the stock of specie in the nation, learned and understood by long experience, and not extended to a capital stock subscribed for; which cannot in the least help to support the company's credit, if the specie of the nation decay." A doctrine which, as Mr H. D. Macleod observes, "contains the refutation of many wild schemes; and the true plan of regulating a paper currency is simply to discover how a

certain proportion shall be maintained between specie and credit." Sir Robert Peel attempted to enforce a similar rule on the country bankers of England by his Act of 1844, when he said, "Let the variations of the foreign exchanges be the rule for the restriction or expansion of your paper circulation"; and if the banks had possessed omniscience to oversee not the circulation of notes merely, but the vastly greater circulation of mercantile credit, his plan would have been nearly perfect. Unhappily their vision was limited.

It is possible that a rigid adherence to the rule pointed at by the writer of 1727, combined with the difficulty and expense of keeping up a larger stock of specie at that time, were amongst the causes which kept the old bank running in a narrow groove until the foundation of the Royal Bank; but the extract suffices to shew that it was a current opinion in 1727 that notes might be issued to the full extent of the subscribed, though uncalled, capital of a bank—the old bank itself, with its £100,000 capital, of which only one-tenth was paid up, having probably so acted itself in earlier days.

The most deadly error, and the most difficult to eradicate, was the fallacy that notes were money and not merely its representative. Professor Leone Levi in one of his lectures remarked that this notion "is quite modern"; so far, however, as British or Scottish banking is concerned, it is as venerable as the system itself. It was a leading principle of the whole "inconvertible" doctrines. There is no trace of the Royal Bank being tainted with it, and had subsequent banks acted upon the same rules no more would have been heard of the delusion. Unfortunately two factors for evil arose, the option clauses and the refusal of summary diligence on promissory notes, which neutralised the banks' endeavours to inculcate the lesson they had learned on the Glasgow and other banks of 1750. The Act of 1765 remedied both evils, and in a great measure destroyed the fallacy, after an existence of two-thirds of the century. Douglas,

Heron, & Co. made one furious attempt to break loose into the old paths, but their speedy collapse in 1772, under the new order of things, was the final blow to the system, which never again raised its head in Scotland.

After Douglas, Heron, & Co. had passed away, there is scarcely any trace of a general over-issue of notes. In special cases, such as those of the Western and City of Glasgow banks, the notes helped to keep up the rotten corporations by means of their power in the branches; but the obligations which eventually caused the failure of these banks were not issued in the form of notes, but of discounts and advances on account, drafts, retirements of London bills, and other forms of credit. Large as the circulation of the City of Glasgow Bank was, it was not excessive in proportion to the number of its branches, and the fact that after its failure the circulation of the other banks' notes gradually expanded and filled the vacuum caused by the withdrawal of the City Bank's notes, shews that the issue of the latter bank was legitimately employed as currency.

Mr Tooke and many other writers blame small notes for much of the speculation which led to the crisis of 1825, refusing to see that they had nothing to do with it, being fully employed as a much-needed currency. The guinea note, whose "Adventures" have been referred to, speaks very sensibly on this point:—"Whatever such fellows as my relations, the hundred and the fifty pounders, may have been about, I have been very little connected with great speculations; as when thousands and thousands have to be paid, there would be little thrift of either time or trouble in fyking with such insignificant beings as us sma' notes."

Having picked off these burrs and faults that attached themselves to the skein, the thread of the system may again be caught up.

Theoretically the first duty of a currency is to enable man whose creature it is to effect exchanges with his fellow-man. This primary task the note had accomplished

so successfully, that Scotland has not again sought to return to a currency of coin.

There remain to be briefly considered the effects of bank notes on the production and distribution of those necessities of human life which are now called "wealth." Land, labour, and capital, with their immeasurable comprehensiveness, were required for the task in 1700 as much as in later days. Land there was in abundance in the most hopeless condition, wildernesses of stones, heath, and morass, waiting the farmer, the builder, the millowner, or canal-maker. Labour was not at first plentiful, but became rapidly more so as the Highland migration began towards the southern towns. Capital alone was deficient—so deficient as to mark out Scotland as then one of the poorest countries of the world. It was deficient also in one of its most essential parts, a metallic currency; and yet so deep and national was the poverty that the bliss of ignorance prevented it from being recognised. No attempts were made to imitate the ingenious traders of England in a currency of tokens, apparently from the reason that such coins as they had sufficed for the few cities then existing; the country villages and small towns contenting themselves with barter, or even "iron nails," according to Adam Smith. John Law of Lauriston died early in 1729; had he survived for a few years to appreciate the cash credit system as first introduced, he would have witnessed a more ingenious plan than his own for "coining the land." The many small lairds and landowners who acted as cautioners in the new cash credit bonds were practically enabling the banks to advance their money on a security having its basis in heritable property. The Royal Bank's invention permitted this to be accomplished without taking the land out of possession of the owners who could best work it, and economised the means of the principal debtors by taking payment of interest only for the sum actually used from day to day, and not for a fixed sum, portions of which might not be required. Thus these credits, granted often on a basis of Land security, acted as

Capital and gave encouragement to Labour. Lands were slowly reclaimed and improved; new methods of farming were employed; weaving and spinning factories were gradually built; and wealth accumulated until the Deposit funds held by the banks doubled their accommodative power. Political disturbance checked progress up to 1746 in the east, though not in Glasgow; but after 1750 every part of the country felt the impulse which practically effected the reconstruction of the nation.

In this mighty work the one pound note was during many years one of the most important though unrecognised instruments. It is interesting to see how the famous French economist, M. Wolowski, failed to see the work of the £1 note in the eighteenth century. He says: "It is only by the aid of either perverted or ill understood facts that people have been led to suppose that the bank note performs an important part in Scotland. The brilliant success obtained by the institutions of credit in that country rests on a different basis, though wide and solid—that of the enormous effective capital accumulated by deposits. The illustrious Macaulay was right in saying that her schools and her banks had transformed Scotland. We are quite of the same opinion; but we make a distinction between banks, as active intermediaries between the capital whose formation they encourage and the labour that they nourish, and the bank note—a secondary instrument, that produces but a very slight economy in the circulation, and that is more valuable by its facility of transport and convenience of using, than by the slight saving effected by it in the metallic mechanism of the exchanges."[1] It is well known how Mr Somers' pen has exposed this misconception. M. Walowski admits the extreme meagreness of literary work from Scottish bankers, and the absence of detailed information. In another chapter he acknowledges that—"We often discuss arbitrary imaginings until we lose sight of facts, and then the accumulated results of experi-

[1] M. Walowski's "Les Banques d'Ecosse"; Somers' "Scotch Banks," etc.

ence find themselves overlooked." In these two admissions lie the reasons for M. Walowski's mistake. Having few facts to guide him, and these chiefly of the nineteenth century, he found the largest items in Scottish banks' accounts were "deposits," and he proceeded to work out his "arbitrary imaginings" unconscious of the "accumulated results of experience" he had overlooked. Had he been aware that in one year £200,000,000 of notes are exchanged in Scotland between the banks alone, without taking into account either the incalculable value which this sum represents of settlements amongst the public before the notes are paid into a bank; or, second, the amount of such settlements now paid by cheque or bill, which prior to 1800 were made by notes, he would not thus have written of the note issues of Scotland. The true "circulation" of notes in Scotland is not the six or seven millions current at any one time, but the sum of operations in exchange which these notes accomplish in any given period. In this sense the Scottish note circulation cannot be less than four hundred million pounds sterling each year.

When the cash credit and deposit systems were inaugurated, cheques, or "draughts" as they were called, were little known. Payments of accounts were never made by cheque. For distant creditors, bills of exchange were drawn when that could be done with profit, but for ordinary hand-to-hand payments, cheques or draughts had no existence. When they were used, it was by direct presentation by the drawer to the bank, who paid the amount in notes, and reduced the deposit of the customer. The latter then paid his creditor in notes. The proportion of bank notes then used for payments of accounts was thus vastly greater than under present modes of settlement. The cheque system only came into force when branches increased throughout the country. Prior to that time comparatively few kept a bank account, and the expense for inland exchange on cheques payable at another town was prohibitive. Consequently notes were used as remittances and travelled over the whole kingdom

in that capacity, until, as above noted, increase of branches, and more important still, easier and quicker communication, decreased the cost of inland exchange and permitted cheques to be handed in payment of trade accounts.

These facts gave notes a superior position and importance, which lasted down into the nineteenth century. We have seen how the first deposit might be made—a certain quantity of notes accumulating with some individual, who took them to the bank, and exchanged them for a new species of right. As deposits and depositors increased the bank found itself in possession of funds, for which it had to pay interest, and which, therefore, it must utilise in some way. How was this to be done? They could not be wholly laid out in return for discounted mercantile bills, for these are only present in healthy volume where considerable trade is carried on. In Scotland, however, the trade had largely to be created before it could be so carried on.

The note issues of the Bank of Scotland had given the first impetus, the second was given by the Royal Bank in its adaptation of the cash credit system as a means of extending its notes; and thirdly, the Bank of Scotland began the completion of the work by engrafting a Deposit system on the other two, each acting and reacting as a means of increasing wealth. Thus another great principle of economics was demonstrated, the distribution of wealth by the banks, whose instruments of distribution were their notes and chiefly their small notes. The first principles of banking were then perfected; future years only witnessed their extension and improved application.

Thus, while a small measure of wealth existed in the country, we have endeavoured to shew how it was increased, and how that increase was produced by means of the exchange power of the note. It remained for the branch system to shew how much greater production resulted from more equal distribution of wealth.

The banks thus possessed of sums belonging to all classes who might have no connection with, or knowledge

of each other, proceeded to lend these out to second parties, who were equally ignorant of the first. Without the banks' intermediary aid this capital could not have been collected and distributed. So far, then, M. Walowski is right, but Scottish bankers may differ from him as to the position accorded to the instrument by which the bank made these distributions. Without their note issues, what had the banks to give? They had nothing. Coin was not to be got in such quantity as to carry on the existing, much less any increased trade. The expenses of obtaining it were so prohibitive, that it would have been as impossible to continue the deposit or cash credit systems deprived of paper currency, as for Stephenson to have run his first train without steam. M. Walowski's words might be better adapted to this illustration to shew their fallacy—"The illustrious Macaulay was right in saying that her schools and railways had transformed Scotland. We are quite of the same opinion; but we make a distinction between railways, as active intermediaries between the capitals whose formation they encourage, and the steam—a secondary instrument, that is more valuable by its facility of transport and convenience of using, than by the slight saving effected by it in the cost of locomotion!" In the eighteenth century bank notes were the steam which drove the engine!

Specie did not exist. If notes had not existed, some other means must have been introduced, or the nation would have stood still. Cheques might have been used,[1] and M. Walowski might have appeared triumphant. But

[1] Mr H. D. Macleod ("Theory and Practice of Banking," vol. i., p. 283, of 4th ed.) states that Messrs Child & Co., London, were the first bankers to adopt printed forms for their notes ("Goldsmiths Notes"), not for definite sums as bank notes, but like modern cheques, printed with blanks for amount and payee's name. This was in July 1729, but it was not until about 1781 that the London bankers instead of invariably issuing these notes or deposit receipts supplied their customers with cheque books. These, however, had to be used with every economy, for in 1788, as will be seen from Col. Allan Cameron's cheque reproduced opposite, a stamp duty of sixpence was borne by

each cheque. The simplicity of the form and the high duty are evidence in themselves of how little a cheque system was in use at that time. See also the 1875 Parliamentary Enquiry, note to p. 437, where the absence of a cheque system is given as the reason why the prohibitory clause in the Act 7 Anne, c. 7, c. 30, s. 66, so long prevented the foundation of large joint-stock banks. Not being allowed to issue notes and having no cheque system, they had no means of giving cash for advances, and thus arose the idea that a prohibition of note issue was really a prohibition of banking.

The manner in which the notes circulated, even after a national exchange system was introduced, is well related by "A Plain Man,"[1] in his "Adventures of a Guinea Note":—"Sir,—I am now nae chicken, for I was born a good many years ago in the Parliament Close of Edinburgh, within the house of Sir William Forbes & Co., on the south side of King Charles and his bell-metal horse. My debut in life was by entering into the service of a worthy customer of the house, who drew me out in part of an order on his cash account for £10, and the lad who was sent was bidden 'bring a' sma' notes, for the mistress wants siller for her marketings.' I was then given to the wife, who, with her lass and her basket, took me down to the laigh market, where I was soon exchanged for meat, and then I came to serve a butcher. He gave me for tea and sugar, and a grocer became my master. This man gave me in exchange for a £5 note to a builder, and from him I was transferred in payment of wages to a working mason. He bought clothes with me. I then served an opulent clothier, but was soon paid by him to a writer to the signet, his agent, who put me into the hands of an advocate, with one or two more, as a fee 'to revise Condescendence and Answers, and make a note of Pleas in Law' according to a new form of process. Some one of this family was taken ill, and a doctor was sent for; there is no rest for the wicked, and I was again obliged to change my quarters, by being slipped into his hand on his leaving the sick room. The doctor paid me away for corn to his horses, and then I took a jaunt to the country. I was carried to St James' Fair [Kelso]; from thence I went to the Falkirk Tryst; then to Glesterlaw Market [Glasterlaw, near Arbroath], after which a shopkeeper in Montrose got me, and a bagman one day coming up to him, scraping and bowing, and begging 'for money and orders,' I found my way in his pocket to Glasgow, where I again led a town life. I was handed from master to man there, and became the medium of no small comfort to warpers and

[1] Author, Robert Ainslie, writer to the signet, Edinburgh.

weavers, and very many of the numerous people of the West; and during all my track I was most eident in the service of my liege lords, bringing them by my labour, every year, more than one shilling sterling."

Time after time, as these notes accumulated from profits in the hands of different traders, they were as regularly brought to the bank, to swell the volume of deposits and increase the capital available for cash credits. These might in turn be drawn upon, but down to 1820 or 1825 always in notes; which, after circulating longer or shorter time, came again back to the bank, either directly to swell its own deposits, or from a source that indicated they had increased the deposits of some other bank.

BRANCHES.—In aiding the establishment of the branch system, the one pound note again displayed its adaptability to altered circumstances, and gave its strongest assistance to the profitable distribution of wealth throughout the land. To open branches, maintained by stocks of gold, in remote parts of a country unsupplied with railways or other regular means of conveyance, would not have been possible to the banks of the eighteenth century, as the gold did not exist wherewith to stock them. Consequently, had they not been enabled to meet this want by means of their notes, the system could not have come into operation. When giving evidence as to the results of the withdrawal of small notes in 1826, Mr Kinnear, director of the Bank of Scotland, states:—"In Scotland the remote parts of the counties in the Highlands and the Islands require a circulating medium almost exclusively in notes of a low denomination. The people employed in the fisheries, in the kelp manufacture, and the purchase of cattle, although the money employed in these in the aggregate amounts to a large sum, require one pound notes for the purposes of the trade. The consequence is, that the one pound note circulation of some of the banks near these districts exceeds the circulation of the notes of £5 and upwards by two and a half to one, while that of the banks in some of the con-

siderable towns is less than the large note circulation by a half." If the banks had been compelled to keep gold, the pressure would thus have fallen most heavily on those parts of the country whose inhabitants were least able to bear it.

Under the branch system the old "till-money" found its right place. Delusion as it had proved under the early state of things, just as that was passing away the new branches opened, and our old friend, corrected of his errors and chastened by experience, was reduced to the "till-money" of the expanding banks. The cheap management obtained by this measure was seriously affected when the stamp duties which had been levied in England from 1791 were extended to Scotland in 1800 and 1808, a loss which probably accounts for the Bank of Scotland's withdrawal of a number of its branches subsequent to the former date. The influence of the three senior banks soon won from the Government a commutation of the duties which was long denied to their neighbours, and although branches steadily increased as the Free Trade and Railway movements advanced business, it is noticeable that the greatest extension took place after the burden of the stamp duties had been removed from their 'till-money.'"

When the duties were commuted in 1854 the branches numbered about 550, inclusive of 40 of the Western Bank. In fifty-six years, with the number of banks reduced to eight, branches have increased to 1200, equal to 118 per cent., though the population has only increased by 63 per cent. The advantage of the new settlement to the banks' branch system is obvious. At present a bank with over a hundred branches emits from its issue department from two millions to two and a half millions of notes, to maintain a total circulation of seven or eight hundred thousand pounds, thus leaving roughly £1,500,000 as stock notes and till-money in the head office and branches ready for use. The amounts of "large" and "small" delivered from the issue department are not in the same proportion as when in circulation, being, for such a bank as above, about three of large to two of small notes in value; so

that, of the above two and a half millions, nearly one million would be small notes, which under the old stamp duty of fivepence on each note would cost the large sum of £20,833. Upon the assumption that these notes would last for *three* years, the annual expense would be equal to £6944. Under the new system, calculated only upon the notes in circulation, say £700,000, of which 65 per cent. are small notes, *i.e.* £455,000, the cost at 8s. 4d. per cent. for the latter would be only £1895, a saving to the bank of £5049 on small notes alone; multiplying this by eight banks, there is a total economy of £40,392, a great part of which must have been paid by the branches, had they been opened under the burden of the old duties.

The expense of the Government stamp was not removed until nine years after the period up to which our history has been taken. In the full burden of these Duties, over 500 branches had been opened throughout the country; and though their rates were necessarily higher than they now require to be—to such an extent as covered the higher expense—yet they were of the greatest benefit to agriculture and manufactures. In conclusion, it is well again to remember the position of the one pound note in regard to the whole branch system. It was the instrument by which they were at first rendered profitable to the banks, and therefore practicable for the country; it was the instrument by which the capital of widely separated districts was collected, to be conveyed to the districts where it was required—only the instrument, but still as necessary in the circumstances of the eighteenth century to a progressive banking system as is gunpowder to the science of war.

Exchange of Notes.—With the increase of banks and branches came the exchange of notes, whereby the circulating medium was economised and saved from depreciation. Reference has been made to the manner in which these were at first objected to and resisted, until gradually, as more enlightened views prevailed, they were

welcomed by all prudent bankers as a benefit in place of an evil. The cheap expansive power of a small paper currency, at such periods as the Scottish half-yearly terms, is one of its greater advantages; but it is necessary, when the special purposes are served for which the increased issue was granted, that systematic means be adopted for removing the superfluous currency. Large sums might come in in the ordinary course of business, but a system of exchanges spread over the whole country removes it with certainty and rapidity, and constantly maintains the supply of circulation at a fair proportion to the demand for it, rendering local depreciation impossible. For the latter purpose, the effect of the system at such times as the restriction period was highly beneficial. Freed from the necessity of paying in cash, the banks might have allowed their notes to remain outstanding—not truly in circulation, but stagnant and unpaid in the hands of the public, as the small provincial banks had done half a century earlier; to be hawked about for sale to pawnbrokers or money-lenders at the best price obtainable, until depreciation lowered their value. No such policy, however, was attempted. Every note passed in through the exchange was paid, if not in gold, at least by credit to the depositor or by London draft of a higher value than the cotemporary par of exchange on London. Thus neither time nor opportunity was given for depreciation. The absence of an exchange system in England was chiefly accountable for Sir Robert Peel's incredulity as to its effects. Had he studied them properly he would have admitted the accuracy of the Scottish evidence on the impossibility of an over-issue or redundant paper currency, where a national system of Exchange and Settlement is regularly carried on.

SIR ROBERT PEEL'S ACT.—Such were the conditions which Sir Robert Peel undertook to improve and secure by his famous and historic measure (8 & 9 Vict., c. 38), entitled "An Act to Regulate the Issue of Bank Notes in Scotland" (21st July 1845).

As a colleague of Lord Liverpool and responsible for much of the currency legislation from 1819 to 1826, Peel had long been cognisant of many of the evils of English banking. He had assisted at the compromise of 1826, by which, for the first time in England strong joint-stock note-issuing banks of more than six partners were permitted to exist, though restricted to an area sixty-five miles distant from London. Within this sacred circle, where large joint-stock banks were most required for the vast business of the metropolis, it was intended that the Bank of England should reign supreme. Happily some ingenious souls discovered that banking could be carried on without a note issue, and accordingly, metropolitan joint-stocks arose immediately thereafter without Government sanction, and had to fight for their existence with the Bank of England, who thus saw its monopoly in further and unexpected danger. Unhappily, the real cause of England's troubles, the monopoly of the Bank of England, was not so generally recognised as to give Lord Liverpool or Sir Robert Peel a free hand in dealing with it, and many private bankers did not take the opportunity of extending into joint-stocks, but looked on with some alarm at the numerous rival establishments springing up under the sanction of 1826. The majority of the latter, following the local traditions of the earlier bankers and accustomed to a restricted area of operations, in too many cases confined their work to a particular county or town, very few at that date widening out into truly national banks; the others though full of hope were devoid of experience, and having no trained body of bankers from which to choose a skilled executive, followed the lines of second-rate Scots banks of the previous century, and began with small capital, hoping to get a banking fund from a note issue and deposits. They embarked in numerous operations outside of legitimate banking. Between 1830 and 1844 they failed in such numbers as to bring the name of joint-stock banking into disrepute, and still further irritate the national sense against their paper currencies. As the

private bankers became accustomed to their new rivals' presence, many of the former converted into and amalgamated with joint-stock banks. Some of these did well and still exist, others, and it is to be feared the majority, agreed to lose their identity to save themselves from failure—the new companies taking over the old houses with all their debts, in which the "bad" and "indifferent" often exceeded the "good." Accustomed for a century and a half to the small capitals of the private banker, few could rise above the tradition, and initiate a fund of capital proportionate to the trade they expected to finance. Practically, England was working out the experiment completed in Scotland half a century earlier. The environment delayed the desired end longer in the South than in Scotland, but the forty years since 1870 have witnessed an extraordinary and natural increase of great national banks in England, with corresponding contraction of local and private banking. This has occurred not only apart from Sir Robert Peel's 1844 Act, but in spite of it, for the restriction of paper currency caused by that famous measure and the Act of 1826 combined, have been wholly responsible for the delay by refusing to English banks the currency most suitable for branch extension.

The din of the panics of 1836 and 1839 was, however, too close to the Premier's ears for him to allocate each effect to its proper cause, and being partly under the influence of panic himself, he did not rely on the healthy effects of freedom in banking which he had already begun to grant to trade, and was so soon to complete by repeal of the Corn Laws. Fascinated in his early years by the study of currency, yet lacking either the power to deal with the monopoly, or the practical knowledge which might have revealed the true remedial principle, he became irritated at the constantly recurrent panics and bank failures, and instead of opening a clear line for the steam engine of commerce, he hoped to prevent future disasters by limiting its speed to that of the stage coach.

Although thus misled as to cause, he was right, and

was supported by national opinion in demanding that bank notes should be convertible into coin on demand; but not realising the far-reaching utility of a note issue when properly applied, his study of history led him to seek the abolition of private issue entirely, and accordingly instead of regulation, the Act of 1844 produced strangulation. Holding these opinions, he naturally sought to create a semi-state issue in Bank of England notes; and in an attempt to give an automatic check to the liberty which he continued to that institution, he succeeded in so "hobbling" it as on three different occasions to bring it to its knees. In a country which had quadrupled its wealth in his own lifetime, he concluded that wealth had reached its maximum, and that the amount of notes in circulation in 1844 should be the limit for all time.

The Scottish Act of 1845 is noted with considerable detail in Chapter XV. *infra.* Under it a fixed amount of note issue was allotted to each bank, based on returns given by them as to their circulation during the preceding year; beyond this amount they were not permitted to issue, unless possessed of coin for the amount of such excess. The second leading principle, already enacted in the English Act of the previous year, provided that no banks other than those then licensed might issue notes in Scotland, thus placing a complete stop to further banking development unless upon a non-issue basis.

It may be matter of regret that the Scotch bankers who agreed to the Settlement of 1845 should have bartered the national right of issue in exchange for the individual profit derived by each from a monopoly of issue and its attendant advantages; profits and advantages which cease when the bank ceases to exist, leaving no succession or possibility of revival in the nation. A notable evidence of this was furnished in 1857, when, upon the failure of the Western Bank, the liquidators endeavoured to sell that bank's right of issue to the highest bidder, but were stopped by the Government with an intimation that the bank having failed, the issue had lapsed, and that conse-

quently there was nothing to sell. The minister who introduced Free Trade was thus responsible for erecting another vested interest, which, valueless as an asset in bankruptcy before his Act, was only refused recognition as a transferable right after its enactment on, as some thought, narrow grounds. One of the immediate effects of the failures of the Western and City of Glasgow banks, and the consequent lapse of their notes, was the imprisonment of gold coin of equivalent amounts in the other banks, whose circulation naturally increased to fill up the void. In absence of the Act, the lapse of paper circulation after the failures could and probably would have been replaced by the establishment of another bank, to secure whose issue proper regulations could have been made short of the total abolition of private issue at which Peel, misled by the experience of England, constantly aimed.

The prime minister's connection with the various financial parliamentary reports of the century should have acquainted him with the prudence which had guided Northern banking. Over-issue of notes had not been one of its failings for many years, the note exchanges having cut short that iniquity. To some extent, therefore, Scottish banks were favoured in comparison with those of the South; but it is important to notice that on the essential point of the whole movement—convertibility of the note—the note-holder was not secured by the Act of 1845.

The returns called for from the banks were sent in with the amounts of notes current during the year. Without further enquiry, and with no regard to future expansion, the average sums were adopted and fixed as the amounts of authorised circulation for all time coming. The inequalities of this method created some anomalies in the security of different banks whose notes in circulation have since 1845 grown out of proportion to the figures of that date. For example, the Royal Bank, with a capital of £2,000,000, obtained authority to circulate only £183,000 notes, while the British Linen Company was allowed to

issue £438,000 on a capital of £1,000,000. The cause of this lay on the surface. In 1845 the Royal had only six branches, while the British Linen Co. had forty-four. Since that date the former bank has greatly increased its offices, and the respective circulations now are about—Royal £950,000, British Linen Co. £800,000. There is no reason for any difference in treatment, as both banks are of the highest standing, yet the former is required to keep nearly £350,000 more gold than the latter, to satisfy the antiquated requirements of an Act passed sixty-five years ago. A more striking example of the injustice of this measure is seen in comparing the Royal Bank's figures with those of the Provincial Bank of Ireland, to whom, on a capital of only £500,000, an authorised circulation was allowed of £927,667.

So far as Peel wished larger reserves of coin to be held, the Act of 1845 was useful at that time in causing the banks to create a coin reserve of larger amount than they had been accustomed to hold, but in the experience of the last fifty years all the banks have deemed it prudent to maintain larger gold reserves than the limits of their authorised circulation require, save at the two half-yearly terms, when the whole currency is considerably enlarged. At these seasons the Act of 1845 compels banks to bring gold from London, often to be returned without changing bags. Refusing to recognise the possibility of these perfectly natural Term payments being as naturally cleared away by the note exchange, Peel insisted that gold should be kept. The banks have always taken this gold from the Bank of England, and the operation of his own Act has thus injured Peel's favourite object: the regulation of the foreign exchanges.

Another defect in his plan arose from the gold so kept not being appropriated solely for the payment of notes—an omission which, in event of a run, gave depositors an equal claim to the gold fund, which was intended primarily for the security of note-holders; and as the former exceed the latter in extent of obligation by nearly fifteen to one,

they could compel any bank to stop payment in a day, leaving the note-holders entirely unprotected. Nor is the position of the banks improved; for whereas, prior to the Act, their gold or silver was available to meet any sudden emergency, under it they are to a large extent locked up, and are of no use as an asset except at the winding-up of the bank, when note-holders and depositors share equally. Fortunately this has since been remedied by the Act of 1879.

The most important and serious enactment was that effected by clause 1, restricting the future power of note issues to the banks possessing that right on 6th May 1844. The establishment of new banks according to Scottish notions was thus rendered impossible, and a monopoly given to the existing offices, which, in view of the fact that these have decreased from nineteen in 1845 to eight in 1910, is cause for some anxiety as to the future currency of the country.

This monopoly of note-issuing was the bait by which Sir Robert caught the bankers of 1845. Both he and they believed, that so long as Scotland had a paper currency, no other bank could begin business devoid of a note issue with any hope of success. To obtain the necessary deposits to make advances and payments, notes would be required; and if those could not be issued by the bank, they must be obtained from another bank, and paid for, placing the new bank in the position of having to pay for its till-money, which all issuing banks, no matter how small their authorised circulation, would escape. To open a branch system would only aggravate the difference between the bank's expenses and those of its issuing rivals, and thus the new institution would find itself blocked at the very outset, from the want of a proper instrument as a medium of exchange. The stop put to the opening of public banks is thus aggravated by the injustice of the monopoly, of whose pernicious influence there has not yet been time to see the final results. Amalgamation of issues was fortunately permitted when two

banks united, otherwise the consequences of the Act might have been sooner felt; but if, in the future, time works its ravages on the Scottish banks as it has done in the past, it may be found necessary to remove the monopoly entirely unless changed circumstances enable the country to adopt some currency different from that of the last two centuries.

As in 1826, considerable discussion took place while negotiations were proceeding, but general interest was not so strongly excited as in that year. The country was much wealthier, and therefore did not think itself under the same necessity of looking at both sides of a penny; but the arguments used were practically the same. Hugh Miller contributed several articles to his paper, *The Witness*, which formed the only approach to the famous Malagrowther Letters of 1826. Sir Archibald Alison entered the lists with his "Free Trade and a Fettered Currency," in which Sir Robert Peel was torn to pieces, to the complete satisfaction of the author. Numerous other writers took up the pen; few, however, seeing the vital use of a note issue to banking, but chiefly dwelling upon the "guid auld days" when free banking consisted of launching out notes regardless of payment, resolved to postpone that disagreeable necessity by every means.

After the Act of 1845 came into force the greater wealth of the country led some writers to depreciate the usefulness of the one pound note, upon the argument that so cheap a currency was no longer a necessity. The extraordinary period of low profits and prices through which the country has passed since 1875 has served to dispel this idea. In these times when competition and the natural production of a teeming earth leave so little to the producer, no effort should be spared to keep down the cost of distribution. The cost of currency is a vital factor in this department of supply, and affects every interest in the country. No trade, profession, or manufacture can plead freedom from its operation, and each is profited to a certain extent by the cheapness and char-

acter of the medium through which their transactions are carried on. Nor can it be said that the Nation is unconscious of this, although long familiarity with the small note currency may have blunted the public perception to its real value; for it can never be said that a currency is unappreciated in Scotland, when it is still preferred to all others in the settlement of debts amounting annually to hundreds of millions of pounds.

The table annexed compares the banks and their circulation of notes with those existing in 1910.

The circulation as for the four weeks period ending 8th January 1910 is chosen because it very accurately reflects the average for the whole year to the same date, which, as taken from the statements in the *Edinburgh Gazette*, was £7,028,168. The percentage of £1 notes on the yearly average was 68·85 per cent. as against 68·28 per cent. in the January period. Excluding the low average of the North of Scotland Bank, the average for the Southern banks is 70·4 per cent. of small notes.

Note.

Average amount of Coin held in 1910 . .		£5,688,291
Average circulation of Notes for 1910	£7,028,168	
Deduct authorised circulation .	2,676,350	
		4,351,818
Coin held in 1910 beyond statutory requirements		£1,336,473

Authorised circulation in 1845 . . .		£3,087,209
Forfeited since 1845—		
1. Western Bank, failed .	£284,282	
2. Ayrshire Bank, purchased by Western before failure .	. 53,656	
3. City of Glasgow Bank, failed	. 72,921	
		410,859
Authorised circulation at 1910 . . .		£2,676,350

Banks in Scotland at the Banking Settlement of 1845.

	Bank	Authorised Issue.		Circulation during Four Weeks ending 8th January 1910, omitting 000.				Percentage of £1 Note to Whole Circulation.
		1845.	1910.	Large Notes.	£1 Notes.	Total Notes.	Coin held.	
1	Bank of Scotland	£300,485	£396,852	366	823	1189	£938	69·2
2	Royal Bank	183,000	£216,451	289	684	974	925	70·2
3	British Linen Bank	438,024	£438,024	213	576	790	543	73
4	Dundee Bkg. Co.	33,451	Joined Royal	...	...	...	...	...
5	Perth Bkg. Co.	38,656	Joined Union	...	...	...	...	...
6	Aberdeen Bank	88,467	Joined Union	...	...	...	...	...
7	Commercial Bank	374,880	£374,880	252	669	921	732	72·5
8	National Bank	297,024	£297,024	222	554	776	683	71·4
9	Town and County	70,133	Joined No. of Scot.	...	...	...	...	...
10	Union	327,223	£454,346	286	591	877	624	67·3
11	Ayrshire	53,656	Joined Western	...	...	...	...	...
12	Western	284,282	Failed 1857	...	...	...	...	...
13	Central	42,933	Joined Bk. of Scot.	...	...	...	...	...
14	North of Scotland	154,319	£224,452	352	402	755	627	53·2
15	Clydesdale	104,028	£274,321	223	511	735	623	69·5
16	Caledonian	53,434	Joined Bk. of Scot.	...	...	...	...	...
17	Eastern	33,636	Joined Clydesdale	...	...	...	...	...
18	City of Glasgow	72,921	Failed 1878	...	...	...	...	...
19	Edinr. & Glasgow	136,657	Joined Clydesdale	...	...	...	...	...
		£3,087,209	£2,676,350	2207	4814	7021	£5699	68·28

CHAPTER XIII

1845-1882

THE WESTERN BANK—THE CITY OF GLASGOW BANK—THE INVASION OF ENGLAND—BANKING ENQUIRY OF 1875—THE ACT OF 1879—BANK NOTES EXCLUDED FROM LIMITED LIABILITY.

> "Proud and serene the evening sun went down
> On many a home, the last for poor and great;
> Dying from off the vale, where slept the town
> In dull oblivion of impending fate: . . .
> At morn, the new-born earthquake's throbbing beat!
> Sounds the alarm amid the tottering street."
>
> *The Fall of Lisbon.*

FROM the close of free banking to the present time there are a few incidents to record, bearing more or less directly upon the one pound note.

Scarcely had the effects of Sir Robert Peel's Act been felt, when an attempt was made by various companies to open banks under the name of exchange companies, which, had they fallen on better times, might have succeeded upon the same conditions as the great joint-stock non-issue banks of London have done. Coming, however, in the full tide of prosperity preceding 1845, they were led by its influence to depart from the prudent principles which have been the rule for most of the English institutions, and the crisis of 1847 and 1848 were fatal to several. A few struggled on for some years, but all are now extinct. In the years 1845 and 1846 occurred the potato famine in Ireland, when the crops were so short in the

whole United Kingdom that many millions of capital were totally lost to the agricultural population. In addition to this direct loss many millions more were temporarily sunk, being exported in 1846-47 to purchase foodstuffs at abnormally high prices, unequalled since the "dear year" of 1812. A vast grain speculation arose, leading with other unknown causes to a persistent foreign drain of gold from the Bank of England. Favourable prospects for the harvest of 1847, and enormous imports of grain in midsummer, caused prices to collapse in the autumn, with disastrous effects on the grain-houses. By the end of September the failures reached nearly sixteen millions. While this colossal loss and lock-up through the famine was occurring, the "railway mania" had reached its height. Government had ordered that promoters should deposit 15 per cent. of the capital value of their railways as a preliminary to their bills being considered by Parliament. By the 30th day of November 1845, 1263 bills for new railways had been lodged with the Board of Trade, representing a capital expenditure of 563 millions, and requiring parliamentary deposits of 59 millions. One writer has pointed out that the latter sum exceeded by 20 millions the whole gold and coin in the Bank of England, *plus* its notes in circulation. The publication of these figures involving the transference of so vast a sum from floating to fixed capital, created alarm which quickly spread. The inflated railway shares fell; heavy losses were made in realisations; schemes were withdrawn in such numbers, that of the 1263 promotions referred to, only 120 finally passed Parliament. A "run" arose to uplift the unrequired portion of the 59 millions of parliamentary deposits, which drained the cash resources of the Bank of England without reducing its note issue. Probably foreign depositors accounted for the gold export, and home depositors took notes either from the Bank of England or from their own banks. The disasters culminated in wildest panic in the week 18th to 25th October 1847. Amid many failures the Western Bank

stopped in Glasgow, as, owing to the reduction in the Bank of England's reserve, no further accommodation could be got. It was the first break-up of Sir Robert Peel's Settlement of 1844. The public demand had cleared the till of the banking department, and the Government were compelled to permit the issue department to deliver notes to its bankrupt brother without receiving gold or securities in exchange. Upon the publication of the Treasury letter to the bank granting this authority, the panic ceased in an hour, and the actual excess of notes beyond the limits prescribed by Peel's Act was only £400,000. The debates which ensued in the House of Commons contain an acknowledgment by Sir Robert Peel that his famous enactment had failed to accomplish all he had hoped from it. Characteristically he blamed the mismangement of the Bank of England for this failure. Mr Baring, Chancellor of the Exchequer in Lord Melbourne's cabinet of 1839, candidly admitted he could not have thought it possible that under the Act of 1844 the bank's bullion could have been drained from it without a corresponding reduction of its liabilities for note circulation. This was a point carefully elaborated by Peel in 1844. Mr Baring shrewdly observed: "I believe we shall find *that the operation of the deposits* and the question of the reserve was not sufficiently considered, either by those who were favourable, or those who were unfavourable to the Bill." It would be unfair to blame either Peel's Act or the bank for the abnormal and unforeseen loss and upheaval of capital produced in the years preceding 1847 by the causes already indicated. No Act of Parliament and no policy of the bank could have altered the famine losses, or controlled the immense national movement for railway construction; and these, acting as they did in combination, would probably have ended in a crisis had the bank been guided with the most consummate wisdom. As events proved, the panic disappeared as soon as it was known that the cast-iron regulation of Peel's Act had been smashed. Had that

regulation not existed, it may be safely argued that while a day of reckoning was inevitable, the crisis might not have arisen to panic. The lessons of 1847 were not wholly lost on statesmen, and many who before 1844 were ready to ascribe all financial disasters to note issues, began to see how far-reaching were the effects of a misuse of general credit, and how much greater was the danger from a "run" by depositors than from any demands by note-holders. It was also seen how the maligned note issues, which had so little to do in originating the great causes of the disaster, were the country's salvation in the hour of need. The report of the Union Bank in 1846 has an interest as the reflection of cotemporary opinion on the results of Sir Robert Peel's Act. It says: "In the main object of its enactments it has proved signally inefficient. The year which has just elapsed has been distinguished by one of these periods of wild speculation which seem destined to be of inevitable recurrence in this country, and for the prevention or control of which the vaunted legislative devices for regulation of the currency have proved to be utterly impotent."

Though Scotland remained free from panic, disturbing influences were at work, for the prices of the banks' stocks fell considerably, as the following list shews—

	1845.	1847.
Bank of Scotland	£178	£169
Royal Bank	170	149
British Linen Company . .	230	200
Commercial Bank	171	161½
National Bank	166	136

When the financial troubles of 1847 and the political upheaval of 1848 had passed, there came the usual ten years cycle. At first repentance for past sins, and dread of cholera, kept the country quiet, until the Crimean war, followed by the Chinese war and Indian mutiny, disturbed her repose.

In 1854 a boon was granted to the younger banks by commutation of the oppressive note duties. These had

necessitated a stamp of fivepence to be printed on all one pound notes, except those of three senior banks, which had previously received relief from some part of the burden. The new system of charging 8s 4d. per cent. per annum upon the averages of circulation was so advantageous to the banks, that it is difficult to see how a government with a Crimean war debt on its head could think of forgoing the old method. (For further notice of commutation, see p. 299.)

Just as Sir Colin Campbell was dealing with another crisis in Lucknow, the failure of the Western Bank occurred on 9th November 1857. King Solomon well said: "Though thou shouldest bray a fool in a mortar among wheat with a pestle, yet will not his foolishness depart from him." At various times had this foolish bank received the poundings of the pestle and the remonstrances of the wheat, with disregard and scorn. Excessive production prior to 1857 led to large mercantile advances, while bankruptcies in the United States caused uneasiness in England; but beyond some small bank failures, and stoppages of several private firms, no imminent danger was anticipated, so that, though the Bank of England's reserves were much reduced, it was hoped that the worst had been passed. This was on the 1st of November, and the excitement was beginning to abate, when it was suddenly and fiercely aggravated by the news of the Western Bank's failure in Glasgow.

Remittances having been cut off from America, the bank's heavy unsecured advances compelled it to seek the assistance of those whose advice it had so often rejected. The six leading banks in Edinburgh and Glasgow prudently advanced £600,000, but on other severe losses coming to light further aid was refused. The bank's liabilities for its exchange balances had been very heavy. The large circulation had been rendered worse than useless to its issuer by the merciless exchanges, through which it was returned to headquarters in heavy sums. In the year 1855 the balances against the bank for note

exchanges and at the Clearing-House for vouchers had been £4,109,726, and only £125,080 in favour. In 1856 the sums were £3,494,139 against, and £114,213 in favour; and up to 9th November 1857, the date of stoppage, £3,393,553 against, was met by £101,813 in favour. Thus in three years the bank had been compelled to find funds in London to meet upwards of ten million pounds returned against it—a good testimonial to the worth of a rapid exchange and clearing-house system.

On the 9th of November the directors found it impossible to meet the debtor balance of that day for £112,974—those of the three last days being £384,696 in all—and the bank's doors were shut. The liabilities to the public were £8,911,932, all of which were afterward paid in full from the proceeds of calls upon the unfortunate shareholders. These amounted to £125 per £50 share, yielding over two millions; but more than £800,000 of this was afterwards repaid.

The circulation on 26th October stood at £515,863, of which £205,740 were large notes and £310,123 small. It fell rapidly to £424,000 on the last day of the month, the chief fall being in the large notes, £69,000, the small notes having only fallen £22,000. On the 4th of November the "large" rushed up suddenly £160,000, and the "small" nearly £38,000; increasing the circulation to £619,551, for which no doubt term payments were largely responsible. There appears to have been no run of note-holders to any extent, though the deposits were being drained away, which would of course increase the note issues for a time, until the paper was paid into other banks as deposits, when the exchanges presented them again to the Western Bank. At its failure the circulation stood at £720,083—£332,720 large and £387,363 small. For two days the circulation remained stationary, as the notes had been refused payment by the other offices, until the frightful panic which ensued compelled them, on the 11th November, from motives of self-interest, to advertise their readiness to take up all the notes. In these two days a severe "run"

had been made upon two of the banks specially, though all the others suffered in some degree; but the daily returns of the note circulation, shewing as they do the respective amounts of "large" and "small," indicate more a "run" of depositors than of note-holders; for, except in the case of the City of Glasgow Bank, the issues rose for a few days even beyond what might be required for the Martinmas Term payments. This is particularly marked in the case of the Union Bank, whose circulation of £654,000 on the 9th rose to £812,000 on the 10th, and £934,000 on the 11th November, falling suddenly on the following day to £674,000. The great increase was in the large notes, the small only rising a few thousands. The good business of the bank in Glasgow doubtless increased its Term responsibilities; but the evidence of its manager, Mr James Robertson, to the "Select Committee on the Bank Acts" of 1858, fortunately proves how and from what class of creditors the bank suffered. A run for gold on the savings branches of the City of Glasgow Bank, when opened the previous evening, had shewn the Union Bank authorities what might be anticipated next day. "On the Tuesday morning, the 10th," says Mr Robertson, "a great number of persons appeared with deposit-receipts demanding gold; in fact, our own establishment was quite filled with parties within a quarter of an hour of the opening of the doors." The other banks were in a similar position. In the course of the day the error of not paying the Western Bank notes was recognised by the Glasgow officials, but, owing to the stoppage of the City of Glasgow Bank, the Edinburgh managers still refused their sanction to the step. The run of depositors continuing, the same evening it was resolved to pay the notes next day. Either on Tuesday night or Wednesday morning the military were asked to be in readiness by the Magistrates, who, fearing a disturbance, ordered their collectors to take any Western Bank notes offered to them in payment of taxes. But further precautions were unnecessary, for so soon as the announcement of the banks' decision to pay the notes

was made public, the "run" so completely collapsed, that by two o'clock in the afternoon of Wednesday the telling-room of the Union Bank had scarcely half a dozen people remaining of the excited crowd which had thronged it in the morning.

During the crisis no attention was paid to maintenance of specie reserve against authorised circulation, all comers being served in notes if they would accept of them, and in gold if notes were refused. Upon the Wednesday and Thursday £620,000 of gold (obtained from the Bank of England by sale of consols) were carted through the streets of Glasgow with considerable parade, to the Union Bank, a sight which did much to inspire confidence. At the time that the successor of the old Glasgow Ship Bank was coming through this ordeal in the west, its Edinburgh connection, that of Sir William Forbes, had also to bear a heavy run for deposits, caused almost entirely by the Glasgow *fama*. Both offices came creditably through the crisis by thoroughly sound management, both prior to and during the event.

While the Union Bank thus stood the test, the City of Glasgow Bank had succumbed on the second morning of the "run." The circulation of this bank is the only one among the other banks which exhibits serious decrease, standing at £477,174 on the 9th November (a little over one-half small notes); it rose, in paying deposits and meeting term payments, to £640,000 on the 10th, of which £381,000 were large and £258,000 small. Next day's note exchange could not be paid, and the circulation rose to £714,000, of which £450,000 were large notes. After the stoppage the amount fell with great rapidity, £553,000 being paid on the 12th, and £88,000 between the 12th and 21st November, when the notes still out stood at £41,000 large to £31,000 small. On the 14th of the following month the bank reopened, and recommenced its career of folly and crime. Under Peel's Act of 1845 this bank's authorised circulation was fixed at the small figure of £72,921. Its note issue as above had therefore a larger

basis of coin than that of any other bank, and should according to Peel have been absolutely secure.

Particulars have been given of this "run," not because it had any connection with one pound notes, but to shew that one pound notes were in no way responsible for it, and that the whole danger arose from the alarm of the depositors, whose fears seem to have been thoroughly awaked; as a "run," however, is usually associated with notes, it may be well to make it clear that that danger had largely passed away, to have its place taken by a much greater. Mr Robertson, of the Union Bank, states:—"The fact is that very few note holders came forward; it was almost entirely depositors;" and again, when asked if small notes had caused much inconvenience in the run, his reply is: "Not the least; no doubt people exchanged one pound notes for gold, but it was to a very limited extent."

Notwithstanding increase of intelligence, "runs" continue from time to time; but judging from past experience in Scotland, it is unlikely that a run would be made quite without reason, direct or indirect. The "runs" on the Birkbeck Bank in 1892 and during the past year 1910, and on the Australian Banks in 1893, do not prove the contrary. The former suffered in 1892 for the sins of the "Liberator" and other building companies, and when the public mind was excited it was natural that the "Birkbeck" might be suspected. The bank escaped because it had ceased to do what it was created to do, viz.—find its investments in landed securities, and had invested its funds in realisable assets. The "run" recently made on the same bank and as successfully defeated, also followed excitement caused by the failure of an institution which had impudently assumed the title of "a bank" to mask its pawnbroking operations.

Turning to Australia, none would now allege that the panic of 1893 was without cause. Many of the banks had rejected the axiom of all banking, "Keep your assets liquid," and had become huge land companies. Even as

such, their investments were rash and their margins insufficient in a market inflated by speculation. Malice or rumour has been responsible for three "runs" since 1893, all on London banks, but these were soon stamped out. It is strange that almost all the "runs" in Britain since 1857 have been in London.

The moral for the Scottish banks is to pursue a good policy on which no suspicion can be cast. Never forgetting the old Italian idea of a bank—a "banco," or heap of money, where each depositor comes and receives his deposit without delay; where no influence was allowed to convert the heap into a solid lump, thus making it insoluble for the time, or in modern phrase "insolvent." The agony of crisis is no time to put on the melting-pot.

In 1854 the name of the old Banking Company in Aberdeen disappeared in its final inclusion in the Union Bank of Scotland; its career has been sketched in a previous chapter. The ancient local connection is still recalled by the title of cashier given to the chief official in the Aberdeen office, which has now looked out upon Castle Street for over one hundred years. Three years later, on 1st August 1857, the Perth Banking Company, an amalgamation of various companies dating from 1763 and 1766, joined the Union Bank, its chief officer also retaining the title of cashier. These two banks by their note issue of £127,133 increased the authorised circulation of the Union Bank to £454,346, the highest figure enjoyed by any Scotch bank. In or about 1853 the name of Alexander Allan & Co. disappears from the Edinburgh Directory, the last survivors of the old private bankers of Scotland, though they had done no banking for some years.

In 1858 the Edinburgh and Glasgow Bank, owing to losses and lock-up of capital by foolish investments, *e.g.*, a bridge over the Thames! joined the Clydesdale Bank, and in 1863 the "Clydesdale" also purchased the Eastern Bank (of Dundee), thus extending its circulation by the two absorbed issues of £170,293, to a total of £274,321. In

1864 another bank, the old Dundee Banking Company, whose statistics for nearly a century have been compiled with loving care by its manager, Mr Boase, was bought up by the Royal Bank, the latter adding the authorised issue of £33,451 to its own circulation.

In 1862 the Companies Acts gave a long-needed facility to the many joint stocks not possessed of corporate rights by charter or special Act of Parliament. All the Scottish banks except the three seniors registered under its provisions, although none took advantage of the limitation of liability, for which public opinion was not then ripe, notwithstanding the losses of the Western Bank shareholders. Clause 182 of the Act prohibited any limitation of liability to an otherwise limited company, in respect of its note issue. This clause did not specially interest Scottish banks until its restricted continuance by the Act of 1879. It did not excite much attention at the time, but is worthy of notice, as in its nine lines it did more to ensure the convertibility of notes than Peel's bill of twenty-three clauses. Under the Act of 1879 the provision became fully operative on all the banks save the three seniors, whose position excluded them from registration under the last-named Act. If they were included in clause 182 of the 1862 Act, they ceased to be affected by it on its repeal by the Act of 1879, under which the liability extends only to companies registered under the Act.

In February of 1864 Mr Gladstone, as Chancellor of the Exchequer, submitted a bill to Parliament with the object of transferring to the remaining Scotch banks, in certain proportions and subject to tax, the authorised circulation of the Western Bank. The liquidators had endeavoured to sell the supposed right of circulation, but were stopped by the Government, with the intimation that under the Act of 1844 the right had lapsed. As Peel's Act made no provision for revival of such issues, Mr Gladstone sought to remedy the omission; but as his conditions were not deemed satisfactory by the Glasgow

banks, the bill was dropped. Had Mr Gladstone permitted a new bank to take up the lapsed circulation, it would have better met the case, as under clause 182 of the New Companies Act above referred to, its notes would have been protected by the unlimited liability of the shareholders.

In the ten years following the failure of the Western Bank the country developed its resources and advanced in prosperity at a rate hitherto unparalleled; railways, steamships, telegraphic communication, mechanical invention, and scientific research all combining to provide revenue and accumulate capital by "leaps and bounds," interrupted by the Indian Mutiny, and the havoc of the American Civil War with its attendant cotton famine in Lancashire. The number of branches had increased from 382 in 1845 to 480 in 1855, and to 654 in 1865, notwithstanding the lapse of the 101 branches of the Western Bank. The increased competition caused by so many rival agencies doubtless led to the Agreement effected amongst the banks in 1863, for a common scale of charges of interest, discount, and commission.

The year 1866, notable abroad for the defeat in July of Austria and the rise of Prussia as chief of modern Germany, was memorable in England for the disastrous failure of Overend, Gurney, & Co., in May, with liabilities of £18,727,945. Numerous other companies, including the Agra & Mastermans Bank, with liabilities of £15,582,002, followed in the panic that broke out, for the Bank of England's reserve being near its limit, the bank could give no accommodation or issue any further notes. A moderate power of issue among the London banks would have stopped the panic, for it was not gold that was wanted, but accommodation by discounts or notes. At an early stage, but not before direst panic had raged during the fatal Friday, the 11th of May, the Government permitted the Bank of England to continue advances regardless of Peel's Act, making the third occasion within two decades in which the famous "Panic-killer" was thrust

to the wall in the struggle for existence. On this occasion the Chancellor of the Exchequer stipulated that for advances so granted, not less than £10 per cent. was to be charged, while any profits emerging after a fair return to the bank were to be paid to the Exchequer. Notwithstanding the relief afforded by this measure, great excitement continued for nearly a week in the city. In five days the bank granted advances of £12,225,000. The capital and reserves of the various companies who failed exceeded eight millions sterling, their liabilities exceeding fifty-five millions, though fortunately several such as the Agra & Mastermans and Consolidated banks were able to resume business in a few days. The eventual net loss to the proprietors of Overend & Co. was £2,961,341, but heavy losses were also made by many concerns whose good fortune kept them out of bankruptcy. As a whole the crisis of 1866 was notable as the most serious hitherto experienced in London. Scotland was unaffected by the crisis which centred in London, though a Liverpool bank had failed in the previous March. Public feeling in London was excited by fears of war through the dark schemes of the Man of Sedan, then tottering to his fall and ready for any villainy to maintain his dynasty. His meddling finger in the Austro-Prussian fight of this year warned Prussia to prepare for 1871.

In the year 1868 the Bank of Scotland absorbed the Central Bank of Scotland, and in 1874 the Royal Bank, under sanction of a private Act of Parliament, 36 & 37 Vict., c. 217, s. 2, kindly engineered for it by Mr Goschen, opened a branch office in London, thus following the example of the National Bank in 1864, and of the Bank of Scotland in 1867. Through the inequity of English banking law, no English provincial bank of issue could open such an office or do business within 65 miles of London without abandoning its note issue. The National Provincial Bank of England had sacrificed a circulation of £442,000 for the sake of a footing in London, and they, along with several other banks which had followed the

same example, naturally complained that the Scottish banks should be permitted to continue their note issue after coming to London. The National Bank of Ireland had quiety transferred its head office from Ireland to London without sacrificing its circulation of £852,269, but apparently the Scottish invasion was more resented than the Irish, as no objection was made to the National Bank's conduct. While the storm was gathering, the Clydesdale Bank, who had consulted Sir Roundell Palmer (Lord Selborne) on the subject so early as 1855, suddenly planted several branches in Cumberland, at Carlisle, Workington, and Whitehaven. This was no new step, as the Leith Banking Co. registered in Carlisle as an English company in 1830, and had carried on a considerable business for years, without abandoning its note issue. Maberley also was an instance of an English banker opening in Scotland and making his notes payable in London. But all these precedents were forgotten or ignored in the sense of injustice from which the English banks suffered.

Refusing to see that the error lay in the banking law of England, Mr Goschen (who had changed his opinion since 1874), Sir John Lubbock, and other English bankers submitted a bill to Parliament in 1875 for exclusion of the Scottish banks from England. After some discussion the Chancellor, Sir Stafford Northcote, took refuge in the appointment of the Parliamentary Enquiry of that year. Fortunately or otherwise, the committee had to report in July that they had not time to submit a report on the evidence, and they recommended their reappointment in the following session. The Government, however, deemed it advisable to take no further action, and in the absence of any legislative objection the remaining metropolitan Scottish banks one by one opened offices in London, the last to move being the Commercial Bank in 1883. Though no formal report was made, the Enquiry of 1875 takes a high rank among similar banking enquiries, the character of the evidence led on both sides being superior to that

tendered at many of its predecessors. The presence of Mr Goschen and Sir John Lubbock, alone, upon the committee gave assurance of no vague investigation where theorists of the Ricardo school might air their impractical ideas. On the contrary, the evidence was most practical throughout, with exception of some ill-informed remarks on Scotch charges by one witness who seemed to be ignorant that there was an Internal or Inland Exchange as well as a Foreign Exchange.

Mr Davidson, treasurer of the Bank of Scotland, read a minute from the meetings of the Scottish managers which is valuable as an expression of their opinion of the position in 1875. It was really a reply to sundry threats thrown out in the debates in Parliament as to cancelling all right of issue. *Inter alia* it reads: "The abolition of the existing system of currency would most seriously interfere with the whole banking system of the country. The right of issue enjoyed by the Scotch banks, which grew out of a free system and was not conferred as a special privilege, is a very valuable one, both to the banks and to the country. Its value does not now consist, to any great extent, in the profit accruing to the banks from the actual circulation of notes; it rests on the right to issue notes to such an extent as the public may at any time require (subject always to convertibility into coin), whereby the banks are enabled to carry on business at upwards of 800 branches without the large abstraction of capital which the use of any other circulating medium would entail. Banking as conducted in Scotland is subject to the keenest competition among the eleven existing banks, and the result is a lower scale of banking profit than is earned in any other part of the United Kingdom. Should the profits at present earned by the banks suffer reduction, by the withdrawal of the right to issue their own notes, the consequence must be a serious diminution in the peculiar advantages afforded to the public by the Scottish system, particularly in regard to rates of interest and in regard to the unexampled facilities through the branch offices. For

these reasons the meeting is decidedly of opinion that it would be unwise to disturb a system of currency which has existed for nearly two centuries, with which the people are familiar, and in which they have absolute confidence."

Mr Gairdner, manager of the Union Bank, submitted figures as to the lower scale of banking profits referred to in Mr Davidson's evidence, and which it appeared had not been prepared in Scotland for the enquiry, but were taken from figures used by the *Economist* newspaper for some years in its criticism of bank reports. The margin of net banking profit, after deducting charges and £4 per cent. on capital and reserves, was on twenty-one English provincial banks (ten with a note issue) said to be £1. 13s. 2d. per cent., while on the same basis the eleven Scotch banks shewed only £1. 1s. 11d. per cent., and eleven London banks only £1. 1s. 3d. per cent. Other percentages were shewn of capital and reserved profits to cash deposits, of net business profits to capital, net business profits to cash deposits and to total liabilities. In every case the advantage to the customers of Scottish banks was apparent. These statistics naturally aroused much criticism, and the National Provincial Bank submitted other figures of its own percentages, which, however, did not invalidate Mr Gairdner's evidence.

Mr George Rae, the distinguished and cultured chairman of the North and South Wales Bank, also objected seriously to these statistics, on the ground that the first series was not founded on equal bases of comparison with respect to the Scotch and Provincial English banks. His two chief arguments, however, proved to be entirely groundless. He stated that his "principal objection" was that Mr Gairdner's estimate was made after deducting expenses instead of before. A bank with large expenses would work out a low rate under Mr Gairdner's method, and if their expenses equalled their profit, argued Mr Rae, they would shew no profit ratio! Unfortunately for Mr Rae's contention, when the expenses were published they were found to be so similar both in Scotland and Provincial

England that they did not affect Mr Gairdner's figures. Further, Mr Rae objected that as all the Scotch banks were under one scale of charges, they should shew a similar ratio of profits. Yet the British Linen Bank's profit was £1. 7s. 10d. against the City of Glasgow Bank's 17s. 2d. Three years later, however, it was discovered in the disastrous failure of 1878 that not one figure in the City Bank's balance-sheet could be relied on, they were false throughout! A fair comparison, therefore, calls for the elimination of their figures from the Scotch bank's statement, and this raises the Scottish figures from £1. 1s. 3d. to £1. 2s. 5d. Mr John Dun, of Parr's Banking Company, in his valuable book of "Banking Statistics," also disputes Mr Gairdner's figures, but, like Mr Rae, writing before 1876, he could not know how baseless was that part of the argument founded on the Glasgow Bank's figures. Mr Dun tendered a ratio of net profits to total resources, which, however, do not seriously invalidate the Scotch contention. It stood as follows: see p. 102 of his book:—

London Banks . .	7	Percentage	£1	4	5
Provincial English .	49	„	2	0	1¾
Scotch	11	„	1	7	0
Irish	5	„	1	13	4

Of the English provincial banks, the lowest was £1. 8s. 10d. and the highest £4. 4s. 5d.! The figures for the largest English provincial bank were £1. 10s. These admissions of the opposite side fully confirm Mr Gairdner's argument which was so much resented after it was made public.

While these two witnesses confined themselves chiefly to the condition and methods of Scotch banks, Mr Fleming, manager of the Royal Bank, carried the war into the enemy's camp, and was really the hero of the fray among the witnesses from Scotland. His intimate acquaintance with Scottish banking from the days of the Western Bank, and his knowledge as a lawyer of the various and sometimes contradictory banking Acts of Parliament since 1826, enabled him to meet on more than equal terms the

keen cross-examination of Mr Goschen and Sir John Lubbock, and to substantiate the right of the Scottish banks to trade in England or London so long as they did not issue notes south of the Border.

On the English side some interesting evidence was given, the provincial banks particularly proving the hardship of their own position under the iniquitous law which shut them out from London unless on abandonment of note issue. But a survey of their case generally, rather leads the reader to regret that the energy and care shewn in getting up the case for repressing the Scotch had not been expended in agitating for the right of equal opportunity in London, and thus, as *The Times* afterwards said, "throw down restrictions instead of enacting new." Nearly all the witnesses made a good fight, and the evidence throughout, as well as some valuable papers in the appendix, repay the student's perusal. It is unfortunate that the large volume of 559 pages is without an index. One important result of the agitation was the adoption of daily exchanges of notes throughout Scotland; some facts brought out in the evidence having produced a fear that the note issues might be interfered with, if attention was not paid to a closer conformity with the Act of 1845. Under the old method, with exchanges only thrice a-week, it was suggested that the amount of authorised circulation, plus the specie reserve, was sometimes exceeded by the note issue during the week; and though it was known that the excess was in the hands of other banks, waiting the next exchange, it was deemed wise to take this weapon out of the enemy's hand by securing strictest economy in the circulation.

In general, banking obtained a fair share of the prosperity attending the return of trade in 1870, until the inflation of prices following the Franco-German war and the subsequent dislocation of the silver market, through Germany's demonetisation of silver, brought about the absurdly high prices of 1873-74, and the consequent collapse and failures of 1875. Severe depression followed,

notwithstanding which the number of new branches steadily increased, until they reached, in 1878, the large figure of 950 offices.

Throughout the early part of the latter year nothing of note occurred to shake public confidence, notwithstanding London rumours about "one of the Scotch banks," which appeared in a Glasgow paper, until, on the 1st of October, the country awoke to find that the City of Glasgow Bank had closed its doors. The ensuing investigation revealed a counterpart of the Western Bank, but of fivefold magnitude—the same character of folly, the same fraudulent efforts to conceal the condition, the same widespread ruin when concealment was no longer possible, magnified beyond comprehension by the length of time over which the bank's credit had carried it while in a state of hopeless insolvency.

The day following the failure, the remaining banks, wisely profiting by the experience of 1857, advertised that all City of Glasgow Bank notes would be taken up at their respective offices. This act maintained popular confidence, though the surprise of the failure came so suddenly that it took several days for the public fully to realise the case.

The two Glasgow firms entrusted with a preliminary enquiry were able in the short space of sixteen days to make a report of their work. Their investigation revealed that the loss of capital, reserve, and funds exceeded all chance estimates. Million after million had disappeared, their loss concealed year after year by a systematic course of fraud which ran through balance-sheets, annual reports, and Government returns alike. The amount for which the bank was liable on acceptances of foreign drafts for behoof of customers had been understated in the balance-sheet by £973,000. Out of £149,000 of bills handed to the bank for collection by customers, £64,000 had been appropriated to its own uses. As the advances on current accounts (over £2,009,000) appeared suspiciously large, the amount was reduced by £1,126,764 which was carried further down the assets side of their balance-sheet

and called "Gold and Silver Coin, Government Stocks," etc. A total estimate of bad debts (£7,345,357) had been regularly included as an available asset. The return of notes and coin under the Act of 1845 had shared the same fate in a steadily increasing extent. The gold coin had been despatched to London to meet urgent requirements, and the amount of coin on hand finally overstated by £300,000. At the date of stoppage the gold, silver, and bronze coin on hand at head office and branches amounted to (although bronze coin or coin at branches should not be included under the Act) £321,753

Adding to this the amount of circulation authorised	72,921
The whole notes in circulation should not have exceeded	£394,674
The real amount in circulation at 1st October 1878 was	863,403
Shewing an excess of circulation beyond legal amount of	£468,729

The following statement contrasts the reporter's estimate of the bank's condition at 1st October, the date of stoppage, with the cooked balance-sheet of 5th July 1874, as prepared for the general meeting of shareholders :—

LIABILITIES.

		5th July.	1878. 1st October.
Deposits		£8,102,001	£8,798,788
Notes in circulation. . .		710,252	863,403
Drafts and Acceptances . .		1,488,245	2,742,106
Liabilities to the Public		£10,300,498	
Capital . .	£1,000,000		
Reserve . .	450,000		
Profit and Loss Account	142,095		
Liabilities to Partners .		1,592,095	
		1,892,593	£12,404,297

ASSETS.

Bills discounted and advances on security	£8,484,466	£5,996,792
Advances on heritage, bank buildings, etc. . . .	265,324	211,074
Gold, silver, notes of other banks .	845,963	418,364
Government stocks, investments, and banker's balances . .	2,296,840	587,083
	£11,892,493	£7,213,313
	Loss,	5
		£12,404,297

The above loss when added to the capital revealed a total estimated loss of £6,190,983.

Although the bank was liable to a heavy penalty in respect of this over-issue, the Government, in view of the loss incurred by shareholders, took no action, the only notice taken of the matter being in the formal intimation appearing in the *London* and *Edinburgh Gazettes* as supplement to the usual monthly returns under the Act of 8 & 9 Vict., c. 38. The bank had failed to send in the return for 28th September, so that the notice for that day appeared with the words "not received" opposite the name of the bank. Next month the following statement was appended to the amounts of the bank's notes and coin :—

"The above-named Bank, which has had in circulation an amount of notes beyond that authorised in its certificate, has not held the amount of gold and silver coin which it is required to hold during the period to which the return belongs. (Signed) W. H. COUSINS,

Dated 17th day of Oct. 1878. *Registrar of Bank Returns.*"

The return referred to shews £216,942 of large notes and £400,131 of small—in all £617,073. So disappeared the City of Glasgow Bank.

The total loss which the unfortunate shareholders had to make good was nominally about £5,000,000, but was in reality far greater. The country suffered for years from the tremendous collapse of prices that ensued. Upon a

market already disorganised, stocks were forced by the shareholders, many of whom, knowing themselves to be utterly ruined, were regardless what prices their investments produced.

On the 19th of October 1878 the six directors, the manager, and secretary of the bank were arrested at the instance of the Crown. The secretary was subsequently released and brought forward as a witness; the others being tried at Edinburgh Justiciary Court on a charge of falsehood, fraud, fabrication, and falsification of balance-sheets, theft, and embezzlement. On the 1st of February 1879, after a trial extending over twelve days, one of the directors and the manager were found guilty of falsifying and fabricating the balance-sheets, and were sentenced to eighteen months' imprisonment; the remaining directors were found guilty of uttering and publishing these balance-sheets, knowing them to be false, and were sentenced to eight months' imprisonment. The trial was followed with deepest interest by the public, and its conclusion left a general impression that Lord Moncrieff had not erred on the side of severity.

Notwithstanding intense popular interest no breath of panic occurred throughout the period of tension, and beyond a few withdrawals of deposits the banks suffered nothing from public excitement. A number of the firms which had caused the bank's ruin were themselves compelled to face bankruptcy. The Caledonian Bank, as the holder of some shares of the City Bank, found itself run upon to some extent; but more serious trouble arose when some shareholders of the northern bank, dreading the extent of their liability for calls by the Glasgow bank's liquidators, disposed of their shares at a rate that threatened to clear the register of its most weighty names. The liquidators of the City Bank demanded a closure of the register, and ultimately petitioned for liquidation of the Caledonian Bank. These events forced the bank to close on 5th December 1878, but on more adequate information of the probable liability, which did not exceed

£11,000, they were fortunately able to resume business in the following August.

The liquidation of the City of Glasgow Bank was conducted with extraordinary celerity. Calls were made of £500 and £2250 per share, from the proceeds of which and other assets one-third of the liabilities was paid by the end of February 1879, and one-half by the end of June following. Towards the close of the year an advance from the other banks enabled the liquidators to offer full payment of 20s. per £, without interest, within fifteen months after the stoppage. Deplorable and disastrous as was the calamity, it was not without its bright features. The relief fund—which in so many instances affords an excuse for polite begging from other countries—was raised almost entirely by the Scottish people, £380,000 in Scotland, and only £20,000 from English or other sources; and notwithstanding the suffering and penury brought to many of the shareholders, the disaster was met with fortitude and patience. During the acute stage of the crisis a few minor disturbances led to the withdrawal of some deposits. The islanders of Burra in Shetland took panic, and carried off some thousands of gold from the Lerwick banks in December 1878, which were thankfully returned in the following spring by the owners, glad to be relieved of its custody.

The event as a whole added another proof to that afforded by the Western Bank, of the inability of Sir Robert Peel's Act to maintain convertibility of the notes or to secure a bank by restricting its note issue. The City Bank's notes were converted, not by the Act of 1845, but by the voluntary action of the other banks, based on the policy adopted more than a century before; while in the character of business which wrecked the bank, note issue had practically no place. Happily the lessons of the event did not pass into oblivion, and in 1882 they were the means of giving to the note issues of the seven junior Scottish banks a solidity which leaves little to be desired. The three senior banks were debarred from

similar security by the mysterious decree of the Government, who preferred that their note issue should remain theoretically weaker than that of the other banks, rather than permit them to strengthen it on a plan which had not been sketched in Westminster.

The suffering caused to the shareholders through the principle of unlimited liability (adopted about 1810), prepared public opinion for a radical change. Under the Companies Act of 1862, banks had the option of registering either as "limited" or "unlimited," and for many years it was supposed that there lay a continuing power in the Act by which an unlimited bank might re-register as "limited," under reservation of clause 182, which continued the full liability for the note issue. After 1878, when certain unlimited banks did so desire to register a second time as "limited," it was discovered that no provision for such supposed right of second registry existed, and the shareholders found themselves in a cleft from which they could only be relieved by sale of their shares, or the assistance of Parliament. After some discussion the Act of 1879, 42-43 Vict., c. 76, was passed, and gave a large measure of relief. Section 2 excluded the Bank of England from the Act. Section 4 permitted an unlimited company to register as limited under the Companies Acts, 1862 to 1879, provided—under sec. 188 of the 1862 Act—that (1) due notice is given to all creditors, and (2) the shareholders continue liable for all debts incurred up to the date of registry under the new Act.

Section 5 permitted an unlimited company to increase the nominal amount of its shares, no part of such increase to be called up except in event of liquidation. Further, any company, "limited" or "unlimited," already possessing uncalled liability, might allocate a certain portion to a similar provision for liquidation.

Section 6 repealed sec. 182 of the Act of 1862, which read as follows:—"No Banking Company claiming to issue Notes in the United Kingdom shall be entitled to

Limited Liability in respect of such Issue, but shall continue subject to Unlimited Liability in respect thereof, and if necessary, the Assets shall be marshalled for the Benefit of the general Creditors, and the Members shall be liable for the whole Amount of the Issue, in addition to the Sum for which they would be liable as Members of a Limited Company," and substituted the following method for arriving at the same financial result:—

"A bank of issue registered as a limited company, either before or after the passing of this Act, shall not be entitled to limited liability in respect of its notes; and the members thereof shall continue liable in respect of its notes in the same manner as if it had been registered as an unlimited company; but in case the general assets of the company are, in the event of the company being wound up, insufficient to satisfy the claims of both the note-holders and the general creditors, then the members, after satisfying the remaining demands of the note-holders, shall be liable to contribute towards payment of the debts of the general creditors a sum equal to the amount received by the note-holders out of the general assets of the company. For the purposes of this section the expression 'general assets of the company,' means the funds available for payment of the general creditor as well as the note-holder."

Two classes of creditors are here named, (1) note-holders, and (2) the remaining public creditors, called "general creditors." Both classes rank *pari passu* on the "general assets." If the latter suffice only to pay 15s. per £ to note-holders and general creditors, the shareholders must then pay (1) the remaining 5s. per £ due to the "note-holders," and (2) a sum for division among the "general creditors" equal to the 15s. per £ taken out of the "general assets" for the first dividend to the note-holders. In effect this produces the same result as clause 182 of the Act of 1862.

Clause 6 concludes with a useful provision permitting any bank of issue registered under the Act as

"limited" to make a statement on its "notes to the effect that the limited liability does not extend to its notes"—and that the shareholders "continue liable in respect of its notes in the same manner as if it had been registered as an unlimited company." It may be regretted that none of the banks has yet taken advantage of this clause. The public have short memories for Acts of Parliament unless aided by such visual demonstration as this clause permits. Such an endorsement would soon soak into the average mind and beget a settled faith that there was no need to "run" for payment.

Section 7 specially struck at such manipulation of balance-sheets as had prolonged and magnified the evil in the City of Glasgow Bank. It demanded a cumpulsory audit of the bank's books and accounts once at least in each year, by an auditor appointed by the shareholders. For such positions no director or officer of the bank was eligible, and the auditor was required to make a report to the shareholders, stating that in his opinion the balance-sheet was full and fair, properly drawn up, and exhibited a true and correct view of the state of the company's affairs as shewn by the books. In actual practice there is now contained in the auditor's report a statement which is satisfactory evidence to the bank's shareholders and customers that their cash reserves of coin and notes of other banks are intact; that the reserve of the bank's own notes and its circulation have not been tampered with; that the balances due to and by other banks (including the Bank of England) are correct, and that the vouchers of the bank's investments (including consols) are in order; so that without any narrow inquisition into the mass of the smaller banking operations, the clientele of a bank may be satisfied by the auditor's report that these portions of their assets which would first disappear in event of misfortune were actually in existence at date of the investigation.

Two of the Scottish banks recognised the public advantage of independent audit before the Act was intro-

duced. The Bank of Scotland and the Union Bank in April 1879 each appointed two well-known accountants as auditors, and arranged for these being appointed by the shareholders in future, thus anticipating the wishes of the legislature. The Bank of Scotland's action was specially commendable, first as giving a lead which others might safely follow in such good company without loss of credit, but chiefly because, being already limited, it did not require to register under the Act. The Union Bank, whose decision had been taken before that of the Bank of Scotland was published, merely followed its policy of 1836 and 1858, when it was the first to take the public into its confidence by issuing a detailed balance-sheet. All the other banks followed in course of 1879 and 1880, though a few did so rather grudgingly. The British Linen Bank adopted the audit on the special recommendation of its distinguished chairman, Lord Rosebery.

Except the appointment of auditors, no action was taken in Scotland for some time after the passage of the bill, owing to the differing constitutions of the banks, the three seniors (the Bank of Scotland, the Royal Bank, and the British Linen Co.) naturally objecting to register under an Act which had no "limitation" to bestow other than they already possessed. These banks along with the Banks of England and Ireland had the privilege of a limited liability under the Acts of Parliament or royal charters constituting them as corporations.[1] Knowing the intention of the other banks to register under the Act, and realising the value of joint action, the three seniors intimated their promotion of private bills in Parliament for an increase of subscribed capital from which to strengthen their note issues by a reserve of liability,

[1] It is possible under a wide reading of clause 182 of the Companies Act, 1862—called the Overstone Clause—that the shareholders of these banks were liable for their note issues even though the banks were not registered under the Act. This effect of clause 182 was not continued under the Act of 1879, so that the question no longer arises.

callable only in event of liquidation. The Treasury officials, however, refused to permit private legislation, insisting that the banks should register under existing enactments, declare their liability unlimited as to notes, and add the obnoxious word "Limited" to their names. In their reply the banks suggested that such an addition might lead to the supposition that a diminution of liability was asked, whereas they proposed an increase, and undertook furthermore to secure their note issues by a special appropriation of Government securities. Upon this the Treasury changed ground and made proposals for a State issue, which were declined, as involving an absorption of rights which the Scottish banks had enjoyed for two centuries. Realising the impossibility of thus carrying their wishes into effect, the banks abandoned their bills and withdrew from the controversy, not without having strengthened their position in the country.

It may be noted that though the Act of 1879 was repealed by the Companies (Consolidation) Act, 1908, 8 Edward VII., c. 69, its provisions were incorporated in the latter Act, where clauses 57, 58, and 59 deal with registration and reserve liability, clauses 112 and 113 with auditing, and 251 with unlimited liability for note issues.

One of the original clauses in the bill was specially designed to harass the Scottish banks who had, or wished to have, offices in London, as no bank was to be allowed to register under the new Act which did not confine its business to the country in which was situated its principal place of issue. It was pointed out by the *Standard* that this would unjustly affect the unlimited Scotch banks, as the three old banks, being already limited, would not require to come under the provisions of the Act, and could therefore remain in London without giving up their issue. The London press had little sympathy with the proposal, wisely seeing the real cause of the evil in the state of their own law. *The Times* advised the Chancellor of the Exchequer to be cautious, and not rouse multitudes of Malachi Malagrowthers, for "the pith of the case lies

in the indefensible fact that English provincial banks cannot open branches in the capital without relinquishing their note issue, while Scotch banks labour under no such disability. But anomalies are not to be cured by fresh anomalies; the true course, in such circumstances, is to trust to freedom, and to throw down restrictions instead of enacting new." The *Daily Telegraph* characterised Sir Stafford Northcote's device as "not only paltry, but will be to a large extent inoperative," the three senior banks already enjoying "under their charters the particular limitation which Sir Stafford designates reserve. If the London bankers really feel the rivalry of their Scottish neighbours, and wish to deprive the public of the facilities these active invaders offer, it would be more manly and straightforward to say so openly, and invite the House of Commons to sanction this latest development of guild jealousy and trades-unionism." Such criticism from its own friends, and the protests of Scottish and Irish banks and members of Parliament, forced the Government to abandon the objectionable clause, to the profound disgust of the justly annoyed English bankers.

The three senior banks being unable to join with the others in adopting the provisions of the new Act, the latter banks resolved to delay no longer, and on the 3rd day of April 1882 registered themselves under the Companies Acts, 1862-1879, each adding the word "Limited" to its name. Thus was effected one of the most important alterations Scottish joint-stock banking has witnessed. Notwithstanding the magnitude of the change, so thoroughly was the public mind prepared for it, that scarcely a deposit was uplifted, the banks resuming their business next day as limited companies as if nothing had happened.[1]

While the country's financial institutions were thus quietly adjusting themselves to changed conditions

[1] *I.e.*, the Commercial Bank, the National Bank, the Union Bank, the Clydesdale Bank, the Town and County Bank, the North of Scotland Bank, and the Caledonian Bank.

another notable event occurred, with equal absence of excitement, on 31st December of the same year. On that day the contract for the Forth Bridge was signed. The structure was opened in January 1890, after a septenary of labour. Two trains weighing jointly 1800 tons slowly crossed side by side from the Lothians to Fife—a sight to be remembered by those who saw it. It was appropriate that the structure which thus united the north with the south should be financed through the Union Bank, and the presiding genius of the bridge, Sir William Arrol, is now one of the extraordinary directors of the bank.

CHAPTER XIV

1883-1910

EFFECT ON FINANCE OF POLITICAL ENGAGEMENTS IN AFRICA—THE CONVERSION OF CONSOLS—THE BARING AND AUSTRALIAN CRISES—GENERAL SPECULATION—RESULTING DEPRECIATION OF INVESTMENTS—ABSORPTION OF CALEDONIAN AND TOWN AND COUNTY BANKS — THE VALUE OF THE NOTE ISSUE — CONCLUDING REMARKS.

"Experience teaches—so the proverb goes,
The heedless man gives birth to all his woes;
But he who pondereth his past well o'er,
For learning, hath the world for his store."

Old Proverb.

In the period embraced in this chapter the one pound note emerges only on one occasion, when the magic hand of Mr Goschen dangled it briefly before the public eye; but the period is otherwise notable from the number and character of important events seriously affecting British banking interests.

In those years when the banks, English and Scottish alike, were limiting their liabilities, two great political movements began which were destined vastly to increase the liabilities of the Empire, and to have strangely cross effects of loss and gain. The modern South African conflict opened with the smashing of the Zulus and the capture of Sekukuni in 1878-1880, when the imperial forces did the same good deed for the Boers in the destruction of their enemy which they had done in 1759 for the coming United States, when they drove the French

from Canada. In 1880-1881 came the first Boer war. In 1887 the magnitude of the Transvaal gold deposits dawned upon the world, and with it a new sense of power to the Boers. In 1889 the Chartered Company added the vast territory of Rhodesia to the Empire, and kept the flag flying north of the Orange River throughout the long conflict of Rhodes *versus* Kruger, until in 1902 the second Boer war closed with the annexation of the two republics.

The second movement began in the north of the same continent, when the rise of Arabi Pasha in 1882 led to the occupation of Egypt, with its unrealised burden of the Sudan, borne steadily to the downfall of Mahdism in 1898. Thus in two decades—1882-1902—our African engagements cost Britain nearly four hundred millions sterling, and thousands of lives.

In addition to the direct "war" loss, several colossal movements and losses of capital marked the period, rendering it memorable, even compared with such events as the railway mania of 1846-1847; so that, though the country did not suffer from any of those "Black Fridays" which the previous nine decades had made too common, there were long periods of depression, sometimes ascribed to "party politics," for which more serious causes have to be sought. Probably at no other period have British banks had to make so large and continuous provision for depreciated investments as during the fifteen years to the close of 1910, and that not from intrinsic defects in the securities chosen, but from a prolonged downward movement, such as marked the fall in silver values from 1873 onwards. It is not easy to trace the root-cause, as even the conversion of consols, to which many assigned it, was itself only rendered possible by antecedent conditions. The collapse of the City of Glasgow and West of England banks in 1878, with the trade failures which attended, these events, left behind a long period of dull trade and general liquidation which the Russo-Turkish war of 1878 did not tend to remove. Money lay idle seeking employment, and finding none

better than deposit in Australian banks. At a later stage some financial journals discussed the possibility of monetary capital losing much, if not all, its interest value! Undoubtedly interest rates were abnormally low for some years prior to 1888, and so peculiarly were conditions in favour of the borrower, that a reduction of the rate on consols came within the range of "practical politics."

Consols had fallen in amount £200,000,000 since 1854, and were steadily diminishing from the operation of the Sinking Fund. As the supply fell the demand continued from the savings banks, whose powers of investment were still limited to national debt. The opportunity seemed so favourable that Mr Goschen in 1888 effected the famous conversion of the Three Per Cents. to £2¾, falling after fourteen years to £2½ per cent.

The reduction of interest on so large a capital fund—£558,000,000 originated a movement of investments out of high-priced securities yielding a small return into lower-priced stocks (of a second grade) yielding a better return, which affected the whole range of securities; as railways and municipalities, following the Government's example, borrowed money below the old 3 per cent. basis. This wholesale "change of investment" degenerated into a general speculation. Messrs Baring Brothers of London inundated the market with bonds from the Argentine and Uruguayan republics.

In July 1890 the political corruption in Argentina boiled over in the revolution of that month, and at once quenched the market for Argentine bonds in Britain. In the following November Messrs Baring stopped payment, with liabilities of twenty-one millions sterling. On asking assistance from the Bank of England, their engagements were met under a guarantee granted to the bank by numerous banking and other houses, in which the seven southern Scottish banks concurred to an extent of £2,100,000. Messrs Baring soon resumed business, and their debts were eventually discharged without loss to the guarantors, but an immense loss fell on the public, the

holders of millions of discredited securities. There followed another long liquidation, with a mistrust of weaker securities which led to ever higher prices for gilt-edged Home Stocks. In 1892, probably as the result of the general criticism of all securities induced, several building companies failed—the London and General Bank and the infamous Liberator Building Company causing disastrous loss in and around London. A "run" was made on the Birkbeck Bank, which stood the test; its managers having abandoned building securities and invested £4,500,000 in convertible securities.

Concurrently, rumours arose as to extensive land speculations by several Australian banks. As Australia had for several years attracted large deposits from Britain (an investment in which Scotland through its legal firms took more than its share), such a rumour led to withdrawals in the end of 1892, which increased in volume with each month of 1893 as the suspicions, formerly directed at a few banks, extended to others. The rumours were only short of the truth. In April and May, fourteen Australian banks suspended payment, representing subscribed capital of 19½ millions, and deposits of 84 millions, of which nearly 27 millions were from British depositors. The consequent liquidation and reconstruction schemes involved a dreary lock-up extending over years; and although Australia recovered with true colonial rapidity the effect on the home investors was doubly unfortunate, driving them still further towards the already over-rated prime securities, consols, home rails, and municipal stocks, until in 1896 consols reached the record price of 114 per cent. Three other classes of investment appeared about this time; vortices into which untold millions were poured. It was the period of "goodwills"; of conversion of private firms into public companies on valuations by well-fee'd experts whose schemes of profits considered "supply" above and deemed possible inequality of demand unworthy of regard. Ordinary shares were shamelessly "watered," and balance-sheets loaded with unjustified "goodwill." Numerous

home industrial schemes appeared, only a few of which have done credit to their promoters. Notably the great house of Messrs J.·& P. Coats, Ltd., though registered as an unlimited company in 1884 was registered as "limited" on 6th August 1890, and now sits "among the mighty" with its capital of ten millions, the great culmination of Christian Shaw's small beginning in 1722. A demoralising speculation arose in Home or American breweries and distilleries, the bulk of which naturally had their stocks freely "watered." No valuations were too gross for the gullible crowds—professional men, ladies, clergymen, shouldering in with potboys and publicans to get an allotment of the precious shares which now are such a drug in the market.

The third class of investment consisted of the gold, copper, and other mining shares so suddenly opened by the exploiting of the Transvaal and Western Australia. Into these ventures hundreds of millions of capital were poured, and an extent of speculation created which has not been recouped by all the dividends received. Lastly, in the years immediately prior to 1910 the rubber boom has again absorbed many millions—the end of which is not yet—and in its latter development, has, in succession to the "Kaffir Circus," the "Jungle" market and "Westralians," given a record employment to the Stock Exchange. In the final accounting of lost or fixed capital during the whole period there remain to be included (1) the many millions fixed in local loans stock, municipal loans, public works, and Irish land legislation; (2) a two hundred million loss on consols since 1896, when the price, now £79, then stood at £114, the unforeseen result of lessened demand from two former buyers—the savings banks, no longer restricted to Government securities, and trustees, to whose range of investments huge additions had been made;[1] and (3) the undiscoverable loss on all the gilt-edged securities which have followed consols down-

[1] Under the Trustees Investment Act of 1899 and the Colonial Stocks Act of 1900.

wards until they stand at the old investment basis of from 3 to 3½ per cent., thus closing the long account, 1883-1910, with a further loss of hundreds of millions sterling.

It can thus be seen that all precedents of 1720, 1826, 1847, or 1866 sink into insignificance before the loss or expenditure of capital in this period; and as the "gilt-edged" securities affected in the latter years of the movement were those specially appropriated to banking investment, the non-banking reader can understand how serious has been the position of bank officials, as year after year they viewed this paralysing decline along the whole line of those stocks which the experience of years had regarded as the perfection of banking security. The lesson has been a severe one, but it seems to prove that the conditions which permitted consols to be so easily converted in 1888 were temporary, and that neither the British Government nor any less worthy borrower can expect permanently to fund debt at less than 3 or 3½ per cent.

With such figures on the debit side of the account, it may well be asked—How is it that British banks have had practically no failures for many years, and how have they earned such dividends as have not only met such losses but materially increased their reserves? Primarily, because the speculation though national in extent, was not engaged in by the banks, the Stock Exchange losses falling directly on the public, who also bore nearly all the loss of the Argentine and the Australian *débâcles*, the banks' losses being limited to the slow drop in gilt-edged securities spread over a period of fourteen years. Secondarily, the bank losses so far as England was concerned fell on establishments of a vastly greater strength and wealth than those of 1857 or even 1878. How much this fall in banking investments has accelerated the steady surrender of smaller banks and the absorption of private or local banking in the South cannot be calculated, but it has not been without its effect both north and south of the Tweed, and the increased solidity acquired by the amalgamations enabled the survivors to bear the loss

with equanimity. Thirdly, if there were losses in one direction there were compensations in the increase of general business, and, thanks to the demand for money, discount rates remained at so high an average that the margin of profit was substantial. Further, the advances to stockbrokers (so far as these could be prudently conducted), for finance of the many speculations afloat have been a material source of profit, extending outside of London to all the large towns of England and Scotland, to an extent so unprecedented as to call for constant restriction by the banks. So far as the banks were concerned the business was profitable, and, involving a very small proportion of loss, it has helped to recoup them for their losses on investments.

How far the general public profited by these operations is questionable. A few gained what many lost, and a large share in the widespread complaints of depression is due to losses incurred in the wild gambling fit which spread through the nation like a contagion. Amongst the many separate fields of speculation, none in Scotland was more common or less profitable than that connected with the "drink" trade. The whisky crisis of 1898-99 found all the licensed grocers with their little "spec." in a few butts of whisky, which long keeping may have improved in quality but not in price or profit. The unhealthy "tied-house" trade (an English importation, by which a brewer and a spirit merchant each advanced capital to some impecunious waiter or publican) came to its height in 1899, when the whisky merchants and brokers, covetous of the distillers' and brewers' share in the publican's profits, started their own distilleries and breweries in order to pool the united profits of distiller, brewer, spirit merchant, and publican. The natural result was, more beer and whisky than the bibulous could absorb—whisky stocks increased in bond year by year.—The steadily rising prices stopped, swayed, and fell. Tied houses dropped heavily in value; capital melted away; breweries and distilleries over the country worked half-time, or stopped altogether.

Many went into liquidation, and specialised buildings costing many thousands sold for as many hundreds. After the lapse of fifteen years the surplus stock of certain years is only now hoping for a market. The whole trade has been revolutionised; few of the old names remain; new houses have arisen and dominate the scene. So far, the tied-house trade is being tried and found wanting, public morals and the best interests of "the trade," could they see it, call for its extinction. Meantime there is a struggle of the fittest, in which the survivors will bless the name of Lloyd-George.

While these "great sea-billows" were passing over the ocean of finance, the one pound note remained honestly at its work, having no share in the great games in which so many suffered and so few won. One hundred years ago, small notes would have been banned as the cause of all the disasters. Better ideas have dawned since then, or Mr Goschen would not have suggested an issue of one pound notes, as he did in 1891, for the purpose of alleviating the pressure on the Bank of England. Though his scheme failed to find support, it was at least satisfactory to see one who was at the same time in the front rank of English statesmen and of London bankers, clear-sighted enough to rise above the Peel traditions and see a future in England for such documents. There was a fine touch of the irony of fate in the episode, that the *bête noire* of 1826 should be the ministering angel of 1891.

Meantime recent years have shewn, even by small reminders, the menace to Scotland of the deadly grip of Peel's ideas, though happily in the cases referred to, the purchase of the Caledonian Bank on 19th August 1907 by the Bank of Scotland, and the junction of the Town and County Bank, Aberdeen, with the North of Scotland Bank in 1908, the amount of the authorised issue of the two banks retiring was absorbed, not cancelled; but the process goes on which has helped to reduce the number of Scottish banks from nineteen in 1845 to ten in 1900,

and now to eight. Let the time be far distant when they shall say "We are seven."

Of the effects of the Act of 1845 it is difficult to judge, principally from the negative results of the veto which it put on all new banks of issue, and the consequent impossibility of correctly estimating what might have occurred had the Act not been passed. If the prohibitive clause had been omitted, probably new banks would have begun as of old, but if we may judge from the experience of England (where the collapse of private issue has put all banks outside of THE BANK on equal terms of comparison), these would not have been numerous. At least there would have been the possibility of new companies of issue arising to replace those failing or retiring, which the Act now renders impossible.

It is remarkable that so few banks have opened in England for many years, but this is due to the same cause which reduced the number of Scottish banks prior to 1845, the extension by branches of the larger and more solid has led to the absorption of the local or less solid, until the former have developed into these truly national institutions which are now giving to England for the first time in her history a banking system commensurate with her commerce. So long as either country is as well served as it is, it is unlikely that new banks will be required on either side of the Tweed; and the fact that England in spite of periods of "Sturm und Drang" has not had a "Black Friday" for fifty-four years, is due to the increased and increasing strength of her banking institutions since 1866. The weakest point in the system will manifest itself should some future "storm" so sweep the Bank of England's reserve as to stop further discounts or issue of notes, and the inevitable "throng" of borrowers find the other banks without a note issue of their own to supply currency and assistance. Such an issue under such regulations as those of the Act of 1879, and made a first charge on the bank's assets, would have stopped the "runs" of 1847 and 1866 had it been emitted by banks

of the same magnitude as now control English banking. The danger to Scotland is that Peel's Act is slowly drifting it towards the same point, which, once reached, would reveal the strange anomaly of a modern law which permits city corporations to issue promissory notes and to accept deposits for hundreds of thousands of pounds which they have no means or fund for retiring, even at the end of their three or six months' notice, except by renewal, or recourse to those very institutions which the traditions of an ancient law still debars from issuing such promissory notes payable on demand. Debars, because of the supposed lessons of a "past" which in English banking is as different from the "present" as the Scotch banking of 1760 is from the banking of to-day. The modern English banker should awake to his equitable rights, and make his demand for equal opportunity with the banks of Ireland and Scotland, if not the Bank of England, so that his powers of convertibility may no longer be ranked second to those of municipal corporations, whose exercise of issue is practically in inverse ratio to their powers of conversion.

Independent of legal enactment, what are the most powerful means of regulating an issue of bank notes, if such were permitted to English banks?

Scottish bank note issues, thanks chiefly to the highly organised systems of exchanges, have in the past been attended with greater success than those of England, and therefore the need of regulation has not been so much felt. At the present time, the self-imposed regulation of the note exchange exercises a more constant and beneficent effect on the Scottish issues than those imposed by law. The one is continually active; not a day passes without each bank being compelled to recognise its influence, and meet its requirements in hard cash, or its more expensive equivalent, payment in London four days after date. The system of exchanges would have stopped Murdoch & Co., and all the over-issuers of the eighteenth century; it did stop Douglas, Heron, & Co.,

and its influence in combination with its own offspring, the clearing-house, in stopping the career of the Western and City of Glasgow banks has never been appreciated. Like the law, it is a continual punishment to evil-doers, and for the praise of those who do well. Why, then, has such an efficient remedy not been made matter for legal enactment throughout Great Britain? In Scotland such a law would simply carry on compulsorily that which has been voluntarily in force for more than a century. The banks in England should endeavour by every means to enlarge their system of exchanges upon the same footing as in Scotland, not merely at head offices, but in every town where two or more banks exist. By these means contraction of paper currency would take place, which would have no effect in restricting banking facilities, but would only tend to prevent depreciation of the paper, and consequent elevation of prices, which invariably ensue when notes are not regularly taken up.[1]

It is by the aid of the exchanges that the work of the one pound note can best be measured. More than half a million of notes are delivered at the exchanges in Scotland every business day. Once every ten business days the whole circulation of Scotland is renewed; nearly £7,000,000 being drawn out, passed from hand to hand, and returned to the banks thirty times every year. Of the sum constantly in circulation one pound notes represent from 68 to 70 per cent. of the whole, and in view of their smaller individual value represent an innumerable number of transactions. Large notes come more rapidly back to the bank, the percentage passing through the exchanges differing at times according to the period of the

[1] This paragraph was written in 1886, when a few private note issues still existed in England. Read in 1910, it simply marks the concluding act of Peel's wish for the extinction of all so-called "private issue." The note issues of England (apart from the Bank of England's) are now like the snakes in Ireland, or nearly so. If they are again destined to arise in the future, a national system of note exchanges should be their *sine qua non*, and their motto, "*Fides servanda est*"—"We must keep our plighted word."

year. At the terms of Whitsunday and Martinmas they are issued in larger proportion than small notes. In the months of February, March, and April, when the circulation is usually smallest, the averages of the two kinds of notes passing through the exchange may be taken as follows:—Large notes, 55 per cent.; small notes, 45 per cent. At the half-yearly Terms, such as from the 10th to the 20th of May and 11th November, the averages may be approximately taken at—Large notes, 61·6 per cent.; and small notes, 38·4 per cent.

Thus it will be seen that, though one pound notes form more than two-thirds of the circulation, they only form about two-fifths in value of the notes exchanged, indicating apparently that the public find them proportionally more useful than large notes, and therefore retain them longer in circulation. But in number of transactions the small notes have a prodigious advantage over the large.

Of the total of £200,000,000 of notes passed annually through the exchanges, a moderate calculation would give of that amount £80,000,000 for small notes, while the remaining £120,000,000 of large notes do not probably exceed 8,000,000 in number.

It is sometimes regretted that no means could be discovered of effectually tracing the number of transfers effected by the gold coinage; but in view of the circulation of the Scottish one pound note, representing as the bank statistics do only that part of its work between bank and bank, and not the number of exchanges effected while the notes are in the hands of the public, they shew the manner in which the precious metals are misused in England and economised in Scotland.

It is sometimes said that the one pound note is losing its hold upon the Scottish people. Since 1845 the great increase of branches has been one of the causes tending to prevent the proportion of notes from increasing in the same degree as other forms of credit. When a single branch existed in a town or village, naturally the exchange of notes was sluggish, and circulation remained longer in

the hands of the public; but when nearly every town can boast of its two or three banks, the exchanges are brisker, being more convenient, while larger amounts pass through than formerly, so that the same notes go oftener through the banks than formerly. The effect of a note exchange is very similar to that of agricultural drainage. In absence of the latter, morasses form and stagnate, as bank-notes did in Scotland in 1760 when certain banks refused to retire their notes. Under drainage, the superfluous water, after doing its duty to the land, runs rapidly and naturally off into drain, stream, or river, to be restored to its great reservoir in ceaseless circulation. The amount of currency, whether metallic or paper, has not increased in the same ratio as the volume of business; but, on the other hand, a decrease of the ratio in proportion to the increase of business, does not infer that the amount of bank notes is actually decreasing; on the contrary, the circulation of Scotland shews that they have been increasing, the small notes being now a million larger than in 1885, while the average of one pound notes has maintained itself with surprising regularity at from 65 to 70 per cent. for more than a hundred years. Once very poor, Scotland through its various gradations from poverty to plenty has employed the same proportion of small notes out of its total bank note currency. Notwithstanding all the agencies at work at different times, or in combination—whether bills, bank drafts, bank cheques, post-office orders, postal orders, postage stamps—nothing seems materially to affect the position of the one pound note, or the proportion of its appreciation by the public.

For forty years Britain multiplied her capital at an incredible rate, and so old a servant as the one pound note seemed to be in danger of neglect by the Alnaschars of finance; the giant "steam" appeared to be driving the world into a millennium, until at last manufacturers realised the fact that they could make more hats or cotton and buttons than the world could consume. The change from hand labour to steam power was so beyond the

power of experience to estimate, that, of necessity, production of wealth advanced by "leaps and bounds," where formerly men had been contented with a much smaller ratio of increase.

Our supposed dullness of trade was not necessarily a sign of decay, but rather that the rate of progress during our monopoly of the world's trade for fifty years had reached its maximum and could not be maintained. Continental and cosmopolitan competition has arisen and "come to stay." It is through realisation of this and of foreign methods that we are now in the throes of the free trade *versus* fair trade controversy, and the public no longer laugh at the latter as they did thirty years ago. One political party has adopted it, and the other fears it. Tariff reform is more than within the bounds of "practical politics." It is in the arena, waiting its call. During the early "eighties" the growing scarcity of gold was the supposed cause of the low prices reigning, but since 1886 the world's annual production of that metal has increased from 20 millions sterling to 63 millions in 1899, and 93 millions for 1909. As only about 17 millions are used annually in the arts and manufactures, the immensity of the surplus now available for currency is apparent. Yet prices seem unaffected, contrary to all theory, and this vast addition to the world's treasure is absorbed annually like an extra shower of rain. In economics, like meteorology, the facts often elude observation. "When goods increase, they are increased that eat them." India continues to import the precious metals as she has done for 3000 years, imports but exports none. Numerous great nations formerly contented with silver currencies have risen to a gold basis.

Thanks to continued commercial prosperity, Egypt is now a hoarder of gold to an annually increasing extent (in 1910, 8½ millions), and will remain so while she is under British control. At home we have wasted on speculation or used in financial schemes a vast amount of the extra treasure torn from nature in the last fifteen

years; and lastly, our National Budget consumes annually FIFTY MILLION POUNDS more than it did in 1886. Since that date more than twelve hundred millions sterling of gold have been extracted from the earth, of which about three hundred millions may have been used in arts and manufactures. Where has the remaining nine hundred millions gone? It is popularly said to be a "little world after all," but she takes her revenges on her inhabitants by being on the whole less explicable than they imagine. Wherever this large sum has been dispersed, only a small fraction has remained in Britain. So far as can be seen, therefore, there is nothing in the supposed abundance or scarcity of gold to induce the abandonment of an economical currency, and it is becoming more and more improbable that Scotland will return to a purely metallic currency for sums less than £5.

It may be well to notice what effects an abolition of bank notes would have. At present the Scottish banks have an average note circulation of slightly over seven million pounds, though their capacity for exceeding the average at certain periods of the year is a highly useful one. To meet this circulation (so far as in excess of the authorised limit of £2,676,350), gold is kept, nominally under the requirement of the Act of 1845. The total sum of gold held averages about £5,700,000. The Act did not legally hypothecate the gold to payment of the notes, and, in liquidation, as proved in the two bank failures of 1857 and 1878, the gold would be swept into the general assets and could not be retained as pledged for the notes. It is possible Peel had no intention so to hypothecate the coin; but, living as he had done through a period when the cheque circulation and deposit systems were in their infancy, he could not anticipate their immense progress after 1845, and holding the view then current that banking progress or fluctuation shewed itself chiefly in the note circulation, he imagined that by holding coin for each note, he would thereby not only check speculation, but also form a gold fund bearing a fair proportion to the

whole liabilities of each bank. The growth of the deposit fund and its consequent cheque circulation, and the further effect of the latter in limiting the use of notes, completely upset his calculations, and shew how vain it was to attempt permanent legislation on such a subject on the rigid lines he then laid down. That the gold is held really against all the obligations of the banks, was practically conceded by so good an authority as Mr Fleming, manager of the Royal Bank, who when asked, in the Committee of 1875, by Sir Stafford Northcote, whether the doubling of their authorised issue would lead the Scotch banks to do without so much gold? replied: "I am not prepared to say that there would be less, because, as I have already stated, I think it is fortunate for Scotland that we have such an amount of gold as £4,000,000 lying to meet any possible contingencies. No doubt it lies locked up in a vault, and is untouched from the beginning to the end of the year; but notwithstanding that, I am not prepared to say that it would be wise to interfere in any shape or form with the existing regulations, which have led gradually to the accumulation of a store of coin, increased from about £400,000 in 1844 to £4,000,000 now; and I think it for the advantage of Scotland, and for the stability of the Scotch banks, that it should be so."

The idea that the gold is held solely for the notes is so engrafted upon the minds of Scottish bankers by the continual weekly returns under the Act, that a more comprehensive view of the gold stock has been of slow growth. Mr Readman, manager of the Clydesdale Bank, supported Mr Fleming's evidence in a very distinct manner. When asked by Mr Backhouse at the same Banking Committee of 1875 (Question 3782), "Would you think it desirable that less gold should be retained in Scotland, if they were not obliged to keep gold against their excess of issue?"—Mr Readman replied: "We should not, I think, keep less gold than we do even if we were not obliged by Act of Parliament to keep gold against the excess issue." Since 1875 the tendency for larger gold

reserves has increased, and it is yearly being further recognised that each bank should keep its own reserve, or enable the Bank of England to do so by keeping a larger balance at the bank. For the immediate future this tendency is more likely to increase than diminish, so that the evidence of the past and probabilities of the future all support the contention that the gold is really held against the £119,000,000 of liabilities, and that in allocating its annual expense to the various items of liabilities, the note issue in circulation should only bear its proportion. The items of expenditure in connection with the circulation are those for manufacture of the notes, licences to issue notes, and Government duty, the total amount of which differs with different banks. More serious than any loss arising from the withdrawal of the circulation, would be the consequent loss of the notes as till-money in the 1200 branches. So far as these branches existed in towns or amid a sufficient population, such loss might to some extent be spread over the banks' business, but the outlying and agricultural districts would be the greatest sufferers.

The fact that Agrarian banks proper have never been required in Scotland is due to the capacity of the note issue in permitting the banks economically to meet the needs of the rural population. In such districts where a small business is done, capital outlay must be correspondingly minimised, and the cheap "Till-money" of their own notes has hitherto enabled the banks to effect this economy. Any change which would substitute a stock of gold or State notes for the present costless "Till-money" would so affect the minute profits earned at many of these country offices, that in self-defence many would be withdrawn.

The tendency of recent banking progress in England is slowly moving towards increased gold reserves. If the movement has extended to Scotland, it is scarcely yet recognised as such, unless in such evidence as that of Messrs Fleming and Readman already referred to. The

progress in Scotland may be slow, but banks, like insurance companies, may rely on their unwritten tables of experience, and in the Scottish banking tables the *percentage* of bank "runs" *per* century reads ·932. That is, for 103 years since the Bank of England stopped cash payments in 1797, Scotland has witnessed only one bank "run," that of 1857. There are few nations which can shew such a record. It is, however, frequently alleged against the Scottish banking system, so far as it has economised the use of gold, that the economy could not have been conducted unless in proximity to the Bank of England and in dependence on it. There is no justice in this argument. From very early times Scotland had a Mint in Edinburgh, and by clause 16 of the Treaty of Union it was agreed, "That . . . a Mint shall be continued in Scotland under the same rules as the Mint in England; and the present Officers of the Mint continued, subject to such regulations and alterations as Her Majesty, Her Heirs, or Successors, or the Parliament of Great Britain shall think fit." The Government which so neglected the English Mint for a century could scarcely spare much reverence for the old Scots "Coin House"; and after using it to recoin the old currency after the Union, it was shut in 1717. So long, therefore, as there is only one Mint[1] in Great Britain, all banks or others needing coin have to look to that Mint or its agent of emission, the Bank of England. The silver coin used in Scotland comes direct from the Mint, but custom has ordained that the gold coins shall pass into circulation through the Bank of England, it being the chief importer of gold to

[1] The third and last Scottish Mint, built in 1574, in the Cowgate of Edinburgh, at the foot of Gray's Close, was a massive quadrangular building, adapted for defence, its hall and rooms lit from the central court. It was demolished about 1877, and though then much decayed, still exhibited, in portions of its splendid oak ceiling and heraldic blazonry, traces of its former grandeur. The finely moulded door bore above it the inscription, "Bee Merciful to me O GOD, 1574"—supposed to refer to King James VI., whose bust may have filled the niche about the inscription. Sir Daniel Wilson describes it fully.

the Mint. The mere fact that the Scotch banks at the two half-yearly Terms get gold from the Bank of England to satisfy the demands of an antiquated Act passed by an English statesman who did not comprehend the conditions, is no proof of dependence on the Bank of England.

There has only been one occasion for over a century when vicinity to London might have proved of vital importance to a Scotch bank. This was during the "run" of 1857, when £600,000 of gold was obtained from the Bank of England. It arrived in Glasgow the day after the "run" had ceased, and was soon returned whence it came. If an argument is to be founded on the evidence of one case, Paris might claim London's dependence upon the Bank of France, because that institution on one important occasion remitted some millions of gold to support the reserve of the Bank of England.

Apart from this, both English and Scottish banks should concert some means for maintaining a more uniform level in the rate of interest. This can only be done by so far lightening the pressure on the Bank of England, whose reserve is the barometer which foretells these numerous fluctuations in the discount rates which now make the last half of the British year a terror to borrowers. In England this could be done most efficiently by permitting to the more substantial banks a right of note issue which would relieve the many millions of Bank of England notes now locked up as till-money in these banks. Scotland's contribution to such a scheme might take the form of a central reserve of coin after the model of the Australian banks. It may not be required locally for many years, but in effect it would permanently relieve a corresponding pressure on the Bank of England at such times of normal pressure as at Whitsunday and Martinmas, and tend *pro tanto* to steady interest rates in the country.

Though such a policy would involve a reduction of revenue, by loss of interest, it would greatly popularise the banks, and would fitly crown the remarkable record

of progress to which almost all the existing Scottish banks have contributed to some extent. For two centuries that progress has continued, and throughout it has been the result of steady internal evolution, not of external legislation, and it is this which above all else renders the good name which Scottish banking enjoys, of interest to the student of history. Practically no national banking system has been so free from legislative interference. The lines of its advance since 1845 were foreshadowed by the history of the previous twenty years, and Peel's Act had no effect unless somewhat to limit the number of the banks. The various movements in the march of progress came with no "sound of trumpet," but collectively their benefits have been nationally so permanent and substantial that it would be difficult to conceive of a modern Scotland where they did not exist.

The Old Bank whose bicentenary is now fifteen years in the past, cautiously began the experiment with political and social circumstances both adverse to success. The competition of the Royal Bank awoke the energies of both, and the cash credit and deposit systems, born together, remain unchanged in principle. The former simplified by the briefer letter of guarantee, and the latter forming the chief fund of utility and profit. The note exchanges were organised which now daily operate in every Scottish town. The British Linen Bank first successfully initiated a branch system, and all three banks began to lay down that broader basis of capital and reserve investment which so much contributed to make Scotch banking what it is. After forty years the Commercial Bank gave a new impulse to these various methods, and in conjunction with the National Bank extended its operations to a national area, which foretold the fate of all local and private banking. The National Bank, further, led the banks, at a critical period when all private note issue was in danger from the prevalence of forgery, to seek the true remedy in improved engraving, rather than in abolition of so useful a servant; and lastly, the

same bank led the others in conducting its London agency by means of a branch in the City. The Union Bank practised what the Commercial Bank's policy foreshadowed, and in its title (the first of the numerous "Union Banks") embraces the operations of eleven different banks, giving some of these a continuance in combination they could not have looked for in isolation. This bank also first in Great Britain published a detailed balance-sheet for the information of its shareholders, at a time when such publication was jealously avoided. Two banks remain, similar in having risen above the influence of a local name. The Clydesdale and the North of Scotland Bank have developed on the same national lines as their neighbours —the Clydesdale continuing that development on the true line of the old Strathclyde tradition by invading the north-west counties of England.

Through these numerous and long-extended movements the bank note, and particularly the one pound note, has held its part, enabling and contributing to their success, enlarging the scope of its operations to meet the necessity of each occasion, and so entwining itself with the national feeling as to become what it now is, one of the two or three most characteristic and widely known facts of Scottish life in force at the present time. It has witnessed the rise of ninety-six separate banks in Scotland, public and private, of which eighty-eight have failed, disappeared, retired, or joined other banks, leaving one-twelfth of the original number to comprise this survival of the fittest.

The question of a national State issue is briefly referred to in the last chapter. Of such a crude panacea Scottish bankers need have little fear so long as they exercise those qualities which Professor Jevons notes with a finely combined candour and sarcasm. "Englishmen and Americans, and natives of all countries, may well admire the wonderful skill, sagacity, and caution with which Scotch bankers have developed and conducted their system. There is no doubt that Scotch bankers are guiding the course of

development of the banking system in England, India, the Australian colonies, and elsewhere, with conspicuous success. If we were all Scotchmen, I believe the unlimited issue of one pound notes would be an excellent measure."

Profiting by the experience of nearly two hundred years, the Scottish banks and the Scottish people may long retain their issue of "ONE POUND NOTES REPAYABLE IN GOLD ON DEMAND." The original idea, on which William Paterson insisted in 1696, remains unchanged. The instrument, now purged from the evils of ancient times, is as powerful, as useful, as safe, when wisely controlled, as various in its capacity, as ever it has been. It may be giving it too great place to call it the still living architect of a noble edifice, but we are tempted to think that if the Old Bank note of 1716 were to rise, as did the guinea note of the "Plain Man" in 1826, we should hear, in the gentle rustle of its ghostly voice, "Si monumentum requiris, circumspice"—"If you seek its monument, look around."

Table shewing the growth of Bank Note Circulation and Stock of Coin of the Scottish Banks.

(Thousands omitted; thus £1 = £1000.)

Year.	Circulation.	Coin.	Year.	Circulation.	Coin.
	£	£		£	£
1704	50*	...	1872	5597	3786
1728	70*	...	1873	5857	4067
1810	3500	...	1874-75	6032	4274
1815	3551	...	1876-77	6167	4377
1825	4683	...	1877-78	5976	4220
1825	3434	...	1878-79	5582†	4203
1845	3087	(?) 400	1879-80	5454	3907
1846	3097	1100	1881-82	5640	3929
1847	4046	1284	1883-84	5865	4226
1858	4113	2502	1899-1900	7910‡	6438
1865	4434	2500	1903-04	6557	5039
1869	4878	2960	1910	7028	5688

* These figures were published after the two temporary stoppages of the old bank. Its nominal circulation about these dates would be some thousands higher.

† Failure of the City of Glasgow Bank caused its issue to disappear.

‡ This is the highest average reached by Scottish circulation, probably occasioned by the Boer war and high prices, and large wage-bills.

Average of Large and Small Notes.

Year.	Percentage of Notes of £5 and upwards.	Percentage of £1 Notes.	Total.
1815	39	61	100
1825	42	58	100
1845	27	73	100
1855	36	64	100
1865	37	63	100
1870	39	61	100
1875	34	66	100
1884	31·8	68·2	100
1885	31	69	100
1910	31·15	68·85	100

Increase of Deposits and Branches.

Year.	Deposits.	Branches.	Year.	Deposits.	Branches.
1819	...	97	1874	£78,405	884
1826	£21,000	167	1884	83,293	929
1845	33,192	382	1894	92,620	1006
1855	43,270	480	1904	102,453	1128
1865	56,185	654	1910	107,611	1213

Note.—The branches in 1826 represent approximately 1 branch to 13,000 of the population, and those of 1910 = 1 to 3900.

Details from Balance-sheets and Reports of Banks in Scotland

(As shewn in Messrs Oliver & Boyd's Almanac for 1911).

Name of Bank.	Instituted.	No. of Partners.	No. of Branches.	Capital. Amount Subscribed.	Capital. Proportion Paid up.	Net Profits for the Last Year.	Dividend for Last Year (free of Income-Tax.)	Date of Last Balance.
				£	£	£	£	
Bank of Scotland	1695	3742	164	1,987,500	1,325,000	288,160	17½	28th Feb. 1910
Royal Bank of Scotland	1727	3519	158	2,000,000	2,000,000	237,944	10*	8th Oct. 1910
British Linen Bank	1746	3375	145	1,250,000	1,250,000	266,560	20	15th Jan. 1910
Commercial Bank of Scotland, Ltd.	1810	4589	169	5,000,000	1,000,000	226,893	20	31st Oct. 1910
National Bank of Scotland, Ltd.	1825	3087	122	5,000,000	1,000,000	222,685	20*	1st Nov. 1910
Union Bank of Scotland, Ltd.	1830	3060	160	5,000,000	1,000,000	205,499	14	2nd Apr. 1910
North of Scotland and Town & County Bank, Ltd.	1836	5200	150	3,260,000	652,000	115,537	12½	30th Sept. 1910
Clydesdale Bank, Ltd.	1838	2892	145	5,000,000	1,000,000	203,703	13	31st Dec. 1909

* Dividend and Bonus

Name of Bank.	Liability to Proprietors. Capital Paid-up.	Liability to Proprietors. Rest or Reserve Fund.	Liability to Proprietors. Dividends and Profits on Hand.	Liability to the Public. Deposits and Credit Balances.	Liability to the Public. Notes in Circulation.	Liability to the Public. Drafts Outstanding, etc.	Liability to the Public. Acceptances on Customers' Liability.	Assets. Cash in Hand, Government Stocks, etc.	Assets. Bills Discounted, Advances, Loans, etc.	Assets. Buildings, Property, etc.	Total Assets.
	£	£	£	£	£	£	£	£	£	£	£
Bank of Scotland	1,325,000	1,200,000	132,797	19,030,229	1,193,736	204,010	1,626,822	10,608,628	11,788,551	688,593	24,712,594
Royal Bank of Scot.	2,000,000	1,013,565	110,000	13,920,173	976,860	276,616	204,614	8,108,701	9,551,608	636,905	18,501,829
British Linen Bank	1,250,000	1,700,000	163,154	11,853,342	738,763	320,097	384,834	6,086,844	9,007,562	1,030,950	16,510,191
Com. Bk. of Scot., Ltd.	1,000,000	900,000	122,465	14,687,812	997,229	321,700	404,421	8,302,337	9,322,211	514,658	18,543,627
Nat. Bank of Scot., Ltd.	1,000,000	900,000	254,250	15,893,223	836,720	76,684	705,162	7,989,443	10,359,034	612,400	19,666,039
Union Bk. of Scot, Ltd.	1,000,000	1,000,000	174,212	12,833,037	866,795	99,945	246,363	7,987,217	7,569,667	417,104	16,220,354
No. of Scot. and Town & County Bk., Ltd.	652,000	402,500	50,033	7,048,056	749,368	212,854	...	4,645,827	4,202,466	276,273	9,124,567
Clydesdale Bank, Ltd.	1,000,000	910,000	227,525	12,345,624	769,484	218,554	160,176	7,341,585	7,625,997	431,022	15,558,781
Total	9,227,000	8,026,065	1,234,436	107,611,496	7,128,955	1,730,460	3,732,392	61,070,582	69,427,096	4,607,905	138,837,982

CHAPTER XV

EPITOME OF LAW AFFECTING THE ISSUE AND CIRCULATION OF BANK NOTES—RULES OF THE NOTE EXCHANGE.

"*Qui vero custodit legem, beatus est.*"—PROV. xxviii.

BANK notes form a special part of that class of documents known as promissory notes. The latter, though different in form, are essentially of the same nature as bills of exchange, and fall under the same branch of law. Notes of a bank may therefore be considered under the following divisions:—(1) Under the currency statutes passed from time to time dealing particularly with them as bank notes, their issue, and its conditions; (2) in the hands of the public as affected by the "Bills of Exchange," other non-currency Acts, and common usage; and (3) minor points, such as Recovery of value of Lost Notes, Legal Tender, Forgery, etc.

WHO MAY ISSUE BANK NOTES.—In the earlier chapters it has been shewn how both in England and Scotland the negotiability of promissory notes was impeded by the decisions of Lord Holt and other English judges, prior to the banking era. These in turn formed precedents for the decisions of Scottish judges, until the legislation of 1765 and 1772 granted to promissory notes the same rights as bills. Amid all these delays no question ever arose as to the right at common law for any person to issue notes of a banker, and apart from sundry enactments as to form and amount of each note, no such personal

restriction occurred until Peel's Acts of 1844 and 1845. It is necessary to urge this, as several well-known English members of Parliament during the debates preceding the Enquiry of 1875, spoke as if Sir Robert Peel had in 1844 granted certain privileges of issue to certain banks, which previous legislation had not sanctioned. The opposite is the fact, Sir Robert withdrew or restricted rights which had been exercised under Scottish law for a century and a half.

The first regulating statute (passed at the urgent request of the Scottish people) was 5 Geo. III., c. 49 (1765), which has been epitomised on pp. 91, 92, *ante*. It abolished option clauses, stopped notes under one pound sterling, and granted recovery of all bank notes by process of summary diligence. The bill or note is now presented at the place where payable, *i.e.* in a bank note the bank office named in the note, and between the hours of 9 A.M. and 3 P.M. (sec. 4). Non-payment is followed by protest, which on being recorded, an extract is issued, containing a warrant to charge the debtor on the notes to make payment within six days. Should settlement not be arranged within that time, poinding (distraint) and sale may follow. Any number of notes of the same tenor may be included under one protest. This invaluable diligence does not appear to have been once required for a century for the recovery of sums in bank notes. The old cumbrous method which included putting the debtor to the horn as an outlaw, is now a thing of the past.[1]

In 1772 the Act 12 Geo. III., c. 72, introduced a sexennial prescription in Scotland, on bills or promissory notes, but bank notes were excluded from this by sec. 39. It may be noted that they are presumed to fall under the long negative prescription of forty years, as the words of the Acts (1469, c. 29, and 1474, c. 55, Scots Par.) would seem to include them with other obligations. The Act of 1765 granted diligence against banks issuing notes, but not against any endorser; the latter remedy is, however,

[1] *See* 1 & 2 Vict., c. 114, secs. 1 and 9.

implied by the statute of 1772, which, as above stated, gave to promissory notes the same rights as bills of exchange.

The issue of bank notes bearing printed dates was very unnecessarily prohibited by Act 55 Geo. III., c. 184, sec. 18, but such dates were resanctioned by Act 23, 24 Vict., c. 3, sec. 19. Though the latter Act was repealed, printed dates are still permitted (*see* 13 & 14 Vict., c. 21). Any part may now be printed save one signature, and even this is not required in Bank of England notes where the cashier's signature is printed.

In 1829 the Act 9 Geo. IV., c. 65, excluded the issue of Scots bank notes under £5 in England (*see* p. 191) under a penalty of not more than £20 or less than £5. The Act of 1844 extends this to all Scottish notes.

The Act last named, 7 & 8 Vict., c. 32 (the English Bank Act), by sec. 10 debars any person other than a banker who on 6th May 1844 was lawfully issuing his own bank notes, from making or issuing bank notes in any part of the United Kingdom. Section 12 enacts that if in any part of the United Kingdom a banker shall become bankrupt, or shall cease to issue notes or give up the business of banking, it shall not be lawful for him at any future time to resume the issue of notes.

In 1845 there followed the celebrated Act 8 & 9 Vict., c. 38, entitled "An Act to Regulate the Issue of Bank Notes in Scotland." Its enactments may be summarised as follows:—

Section 1 limits the issue and circulation of bank notes to those banks which had issued between 1st May 1844 and 1st May 1845 [*see* list of banks, p. 233], and which had intimated by letter to the Commissioners of Stamps and Taxes in London their desire to continue so issuing notes. It then instructs the Commissioners to ascertain the average circulation of each bank from returns of circulation made by the banks for the year up to 1st May 1845, under previous Acts, notably that of 1841 (4 & 5 Vict., c. 50), and thereafter to give to each banker a certificate stating the amount of notes which he may in future issue

without holding any gold or silver coin in security. This amount is now called the "Authorised Circulation." The same section authorises bankers to issue notes in excess of above amount, on holding gold or silver coin for an amount equal to such excess. Section 11 provides that "of the Coin held, no amount of Silver Coin exceeding One-Fourth Part of the Gold Coin held by such Banker, shall be taken into account"—*i.e.*, of £500 of excess circulation not more than £100 could be secured by silver, the remaining four parts of £100 each having to be covered by gold. Mistakes are often made as to the true meaning of this section, it being supposed, as was stated in evidence before the Parliamentary Enquiry of 1875, that the silver may be one-fourth of the whole and the gold three-fourths, but a close reading of the clause shews three terms—coin in general, gold coin, and silver coin, the last two making up the first. The silver may be one-fourth of the gold, not of the whole coin; whatever therefore the gold may amount to, the amount of the silver to be accounted as security under the Act is not to exceed one-fourth of that gold. If the gold coin held is £80, then silver may be held for one-fourth of £80, that is £20, making a total of £100 of coin in proportions of four-fifths of gold and one-fifth of silver.

Section 2 provides that two or more banks uniting during the year preceding May 1845 may retain the note circulations of both.

Section 3 orders the particulars contained in the certificates of authorised circulation to be published in the *London Gazette*.

Section 4 enacts that two or more banks uniting at any future time may retain both issues, but must receive a new certificate to that effect.

Section 5 enacts that all notes issued or re-issued in Scotland shall be for a sum of pounds sterling, and shall contain no fractions of a pound sterling, on pain of penalty of £20 for each note so made, signed, or issued.

Section 6 states, it shall not be lawful for any bank to

have in circulation upon an average of four weeks (*see* sec. 10 for mode of ascertaining average) more notes than the amount of the authorised circulation plus the average of the gold and silver coin held by such bank at its head office or principal place of issue during the same period of four weeks.

Section 7 orders each bank to render accounts weekly to the Commissioners of Stamps and Taxes in London, of—(1) The true amount of notes in circulation at the close of business on the previous Saturday, distinguishing between notes of £5 and upwards and those below £5; (2) the total amount of gold and silver coin held at the head office or principal place of issue in Scotland on each day of the week ending on the same Saturday; and (3) the total gold and silver coin held by each bank in Scotland at the close of business on that Saturday. Further, on completing each successive period of four weeks, each banker must annex to the accounts above referred to—(1) the average amount of his notes in circulation during the said four weeks, distinguishing between notes of £5 and upwards and those below £5; (2) the average amounts of gold and silver coin respectively, held at the head office or principal place of issue in Scotland during the said four weeks; and (3) the amount of the authorised circulation. All such accounts must specify the head office or principal place of issue in Scotland, and must be signed and certified by an authorised official of the bank. The penalty for failing to forward the accounts in proper form or time, or for sending a false return, is the forfeiture of £100 for each offence.

Section 8 defines notes "to be in Circulation" from the time they are issued by the bank or any servant or agent of the bank, until they shall have actually returned to the same parties. It will be seen that notes in the hands of other banks are thus held to be "in Circulation," but notes in the tills of a branch office of the issuing bank are not so held until they are paid out across the counter.

Section 9 instructs the Commissioners of Stamps and Taxes to publish the accounts in the next *London Gazette*

in which they can conveniently be inserted. They are also published in the *Edinburgh Gazette*.

Section 10 details that the monthly averages of notes in circulation and gold and silver coin at the head offices of the banks shall be ascertained by dividing the summations of the four weekly amounts of (1) the notes, and (2) the two kinds of coin separately, each by four, being the number of the weeks; and the monthly average of notes so obtained must not exceed the sum of the authorised circulation plus the monthly average amounts of gold and silver for the same period held at the head offices obtained in like manner. For example, let the authorised circulation of a bank be £350,000, and its actual circulation as returned at close of business on the undernoted Saturdays be as follows:—

On 2nd March,	£650,000	
„ 9th „	690,000	
„ 16th „	700,000	
„ 23rd „	620,000	
The aggregate of the four weeks is thus		£2,660,000
Dividing which by the number of weeks gives an average circulation for the month of		£665,000
Deducting the amount of authorised circulation for which no coin need be kept,		350,000
There is left a sum of		£315,000

which must be covered by the monthly average of coin at head office. The weekly total of the latter need not always come up to this sum, provided its monthly average does so. Of the coin, let the respective weekly amounts be on same dates—

	Gold.		Silver.		Total for Week.
	£285,000		£25,000		£310,000
	293,000		28,000		321,000
	290,000		35,000		325,000
	300,000		11,000		311,000
Totals,	£1,168,000	+	£99,000	=	£1,267,000
Dividing each by four,					

From above example, it may be seen that though the coin held in the first and the last weeks was below the required amount of £315,000, yet the second and third were so far beyond it as to raise the monthly average of coin £1750 above it. In practice the banks do not run so close to their limit. At exceptional times, such as the Whitsunday and Martinmas terms, the circulation sometimes expands with a suddenness that requires ample provision to be made beforehand.

Section 11, as to proportions of gold and silver, has already been described under sec. 1.

Section 12 empowers the Commissioners of Stamps and Taxes to ensure the rendering of true accounts by inspecting the books and papers of the banks, and examining and ascertaining the amount of coin held by the banks at all "Seasonable times." The inspecting officer must be authorised in writing by any two of the Commissioners, and must exhibit his authority when required by the banks. The penalty for refusing or preventing such inspection is the forfeiture of £100 for each offence. Lastly, it is provided that the Commissioners shall not exercise their powers under this section without the sanction of the Commissioners of the Treasury.

Section 13 requires all banks in Scotland, except the Bank of Scotland, the Royal Bank, and the British Linen Bank, whose shareholders are understood to be liable only for their subscription, to return a list of the names of the partners once in each year. This return is now made under the Companies (Consolidation) Act, 1908, 8 Edward VII., c. 69, under which these banks are registered.

Section 14 enacts that if the monthly average circulation of any bank is in excess of the sum allowed under this Act, such bank shall, in every such case, forfeit a sum equal to the excess.

Section 15 removed doubts caused by the Act of the previous year as to Bank of England notes. They are declared to be not a legal tender in Scotland, though their circulation is not prohibited.

Section 16 declares notes of less than 20s. not negotiable in Scotland, and inflicts a penalty (on those publishing or uttering such notes) of a sum not exceeding £20 and not less than £5, at the discretion of the justice who shall hear and determine the offence.

Section 17 provides certain forms for notes above 20s. and below £5, which were intended to stop their issue. They have to be witnessed and endorsed payable to order, and must not circulate for a longer period than twenty-one days, nor be re-issued if once paid. This section was suspended for three years, from 28th July 1863, by Act 26 and 27 Vict., c. 105, and has continued so under the Expiring Laws Continuance Acts.

Sections 18 and 19 enact penalties for issuing notes of less than £5 by persons other than the bankers authorised to do so by the Act, £20 being forfeited for each such note made, signed, or issued.

Section 20 provides that nothing in the Act is to prohibit cheques on banks.

Section 21 describes the mode of recovering the penalties, ordering them to be applied as part of the revenue from stamps, unless the Commissioners at their discretion give all or any part of such penalties as a reward to informers.

Section 22 defines the term "bank notes" as follows:—

"The term 'bank notes' used in this Act shall extend and apply to all bills or notes for the payment of money to the bearer on demand other than bills and notes of the Governor and Company of the Bank of England." As the above definition, and also those in the Acts applicable to England and Ireland, failed to prevent some parties from attempting to evade its provisions, a further definition of the terms "Banker" and bank notes was introduced into the Stamp Act of 1854 (17 & 18 Vict., c. 83), which is continued in the Stamp Act of 1891, 54 & 55 Vict., c. 39, as follows:—(*a*) "any Bill of Exchange or Promissory Note issued by any banker other than the Bank of England,

for the payment of money not exceeding £100 to the Bearer on demand; and (*b*) any Bill of Exchange or Promissory Note so issued which entitles or is intended to entitle the bearer or holder thereof, without endorsement, or without any further or other endorsement than may be thereon at the time of the issuing thereof, to the payment of money not exceeding £100 on demand, whether the same be so expressed or not, and in whatever form, and by whomsoever the bill or note is drawn or made."

Section 23, the last in the Act, sanctions amendment or repeal by any Act to be passed in the same session of Parliament.[1]

The note clauses of the Act of 1879 are now incorporated in 8 Edward VII., c. 69 (the Companies (Consolidation) Act, 1908), and have been dealt with on pp. 258, 266, *ante*. Briefly, they declare that the liability of bank shareholders registered under these Acts is unlimited in respect of the whole extent of the note issue.

The liberty to issue bank notes in Scotland is now permitted to the seven Edinburgh and Glasgow banks, and the one surviving northern bank, and to no other or future companies or bankers; these eight being the survivors of the nineteen banks of issue existing in 1844 and 1845 to whom the Bank Acts of these years granted a monopoly of issue, in respect of their being bankers "lawfully" issuing notes on the 6th day of May 1844, and thence up to the 1st of May 1845.

LICENCES AND STAMP DUTIES.—Though these properly fall under the previous section, they are here treated of separately for convenience of reference.

The Bank of Scotland, the Royal Bank, and the British Linen Company had received special rights to issue small and other notes upon unstamped paper, on accounting for the duties to the Commissioners of Stamps

[1] The foregoing epitome of the Scottish Bank Act is chiefly taken from the author's "Bank Note Circulation of Scotland," by the kind permission of the publishers, Messrs C. and R. Anderson, Edinburgh.

and Taxes (Acts 39, c. 107; 48, c. 149; and 55, c. 184, of Geo. III.).

The "lawful issue" of bank notes implied that at least two requirements of the State had been complied with—first, that the banker had been duly licensed to issue; and, second, that the notes were either stamped, or that arrangement had been made for issuing them on unstamped paper.

The first restriction of a banker's right to issue notes by requiring a licence for the exercise of what had previously been a right at common law, was instituted in 1808 as a war tax by Act 48 Geo. III., c. 149. Subsequently, by Acts 55 Geo. III., c. 184, s. 24 (1815), and 7 Geo. IV., c. 67, s. 13 (1826), it was provided that not more than four licences were required for any number of offices in Scotland. By the Act of 1844, 7 & 8 Vict., c. 32, s. 22, the law was changed, to the effect that each office opened after 6th May in that year for the circulation of notes required a separate licence—though one covered two or more branches in one town—all offices in existence prior to that date remaining secured as before by the four licences. The amount for each licence is £30, which is renewed annually, on the 10th of October in each year. Any banker issuing notes in contravention of the statute (now 54 & 55 Vict., c. 39, s. 31—Stamp Act, 1891) is liable to a penalty of £50 for each note so issued, while anyone knowingly accepting such a note forfeits the sum of £20 for each offence. Section 30 of the same Act permits lawfully issued notes to be re-issued without being liable to increased stamp duty by reason of the re-issue. Under the commutation system of payment, such re-issued notes of course then form part of the circulation (until repaid), on which duty is charged.

Prior to 1800 no taxation was levied upon one pound notes, but in that year (under Act 39 Geo. III., c. 107) a duty of twopence upon each note was imposed to meet the war expenditure. In 1805 the duty was raised to threepence, and no note was allowed to circulate for a

longer period than three years without being restamped. In 1808 the vexatious restriction as to time was abolished, but the duty was raised to the following rates (Act 48 Geo. III., c. 149):—

						s.	d.
Not exceeding	£1	1				0	4
Exceeding	1	1	but not exceeding	£2	2	0	8
,,	2	2	,,	5	5	1	0
,,	5	5	,,	20	0	1	6
,,	20	0	,,	30	0	3	0
,,	30	0	,,	50	0	4	6
,,	50	0	,,	100	0	7	6

These rates remained in force until 1815, when Act 55 Geo. III., c. 184, again raised the duties to the scale at which they now nominally stand, although fortunately robbed of their sting by the commutation of 1854:—

						s.	d.
Not exceeding	£1	1				0	5
Exceeding	1	1	but not exceeding	£2	2	0	10
	2	2	,,	5	5	1	3
	5	5		10	0	1	9
	10	0		20	0	2	0
	20	0		30	0	3	0
	30	0		50	0	5	0
	50	0		100	0	8	6

A higher rate is fixed than upon ordinary bills of exchange, on account of the power to re-issue. Any notes stamped under the scale of 1808 were allowed to be re-issued upon being stamped with the additional duty. Prior to 1815 the stamp was impressed upon the face of the note, but after that date it was printed in red ink upon the back, a somewhat rough design being employed similar to those still to be seen in the stamps upon patent medicines. Though supposed to form a protection against forgery, it was soon forged without difficulty.[1]

By an Act passed in 1833, 3 & 4 Wm. IV., all banks of

[1] The stamp was called the "Congreve," from its inventor, Sir William Congreve, the originator of the Congreve Rocket.

issue were required to send in returns of the quarterly average of their notes in circulation, calculated upon the sum in the hands of the public at the end of each week, the returns to be made upon the 1st of January, April, July, and October of each year. The Act of 1841 (4 & 5 Vict., c. 50) called for further returns, for the purpose of checking the stamp duties paid.

Notwithstanding repeated efforts to obtain a settlement of the duties which would stop the inconvenience of sending the notes to be stamped in London, the Government declined to move, until 1853, when a deputation of Scots bankers had an interview with the Lords of the Treasury, who promised to look into the matter with a view to a change. After some negotiation the Government intimated that they were willing to compound, if some mutually equitable principle could be agreed upon. A common basis having been arranged, an Act was passed in August of that year, 16 & 17 Vict., c. 63, stating that as it was advisable to grant to the other banks in Scotland the same right of issuing notes upon unstamped paper enjoyed by the Bank of Scotland, the Royal Bank, and the British Linen Company, and also to arrange some method of compounding with all the banks in Scotland and elsewhere for the stamp duties upon their notes, therefore power should be given to the Commissioners of Stamps and Taxes, or any three of them, to make such arrangement with "all or any of the banks for a composition," "on such terms, and with such security for the payment of the same," as the Commissioners might see fit. In the following December a commutation was sanctioned, whereby the banks have since been charged 8s. 4d. annually upon each £100, or part thereof, of their notes circulating in the hands of the public. Certain of the bank directors were required to give their bond to the Crown for several thousand pounds, as security for due payment of the compositions.

Payment of the duty is made half-yearly at the rate of 4s. 2d. per centum, or part thereof of the circulation,

LEGAL TENDER—NOTES STOLEN, ETC.—No notes are legal tender in Scotland; even Bank of England notes are excluded by the Act of 1845, though negotiable, while Scots notes are only counted as cash if received as such. The question of legal tender was decided regarding Scots notes so far back as 1756, in Watson *v.* Chalmers. Mr John Watson, an Edinburgh lawyer, having been offered Glasgow bank notes in payment of a bill by Mr Chalmers, a Leith merchant, declined to accept them, and sued Chalmers for recovery of the bill. Chalmers pled tender of payment by bank notes. The Court held that the offer of bank notes did not form a legal tender, and that all contracts to pay money must be understood to mean payment in standard coin of the realm, unless otherwise stipulated. It has been held in England, that a creditor taking country bank notes when he might have had gold, thereby lost recourse against cautioners.

More *v.* Murray — 25th November 1696 (*Brown's Supplement*, vol. iv., p. 331)—is the earliest recorded case of a bank note appearing in Scottish law courts. Gilbert More, a writer, lost a £50 note of the Old Bank, which was subsequently cashed to Patrick Murray, collector. More sued Murray for the amount, alleging the note to be identified by its number, which he knew. Decree was given in a bailie court against Murray, who appealed to the Court of Session for suspension of the decree. His appeal was dismissed, because he declined to say how the note came into his possession. If he was only a finder he had no claim, and the fact that he refused information is suspicious. Had he shewn that he was what is now known as an "onerous holder for value," the case would probably have gone in his favour.

This was decided in the case of Crawford *v.* Royal Bank, in February 1749 (Morrison's Dictionary). "Hew Crawford, clerk to the signet, sent a £20 Old Bank note by post, noted the number, and wrote his name upon it. It was lost, and the note at last appeared in hands of the

New Bank. Crawford raised a process of multiplepoinding in name of the Old Bank. The judges were unanimous on two points—first, that money is not subject to any *vitium reale*, and that it cannot be vindicated from the *bona fide* possessor, however clear the proof of the theft may be; second, that bank notes serving the purpose of money must be entitled to the same privileges, and therefore that Mr Crawford had no claim to the note in question." Any use of the terms "cash" or "money" in a popular sense is therefore held to include bank notes, and the Courts in dealing with certain old annuity Acts of 17 George III. regarded notes as cash. Lord Mansfield's decision in 1758 as to a stolen note was on similar lines to the Scots decision in the Crawford case (*see* p. 94 *ante*). In any indictment under the Criminal Procedure (Scotland) Act, 1887, sec. 14 provides that the word "money" shall include "Bank Notes," and the latter need not be specifically named in the indictment. The Bills of Exchange Act, 1882, sec. 31, now provides that a bill [or note] payable to bearer is negotiated by delivery. Thus even a thief or a finder, having themselves no title, may give a good title to a *bona fide* receiver, who becomes in terms of the Act "a holder in due course" (*see* sec. 38, sub-sec. 2).

By Act 19 & 20 Vict., c. 59, s. 32, bank notes may be poinded by the sheriff for Crown debts; and under the Fraudulent Debtors Act (Scotland), 1879, 43 & 44 Vict., c. 34, s. 12, the sheriff has power, upon cause shewn, to grant warrant to take possession of bank notes, money, and open lockfast places; but it is understood that they cannot be poinded for any other debt, nor are payments in notes reducible under the preference clauses of the Bankruptcy Acts, being reckoned as cash.

A merchant could, prior to the Bills of Exchange Act, stop goods *in transitu* for which he had been paid in notes of a bank which had failed. It is doubtful whether he can do so now, unless he can shew knowledge on the part of the transferor (*see* sec. 58, sub-sec. 3, *ante*).

RECOVERY OF VALUE OF NOTES LOST OR DESTROYED. —When a mutilated note is presented the Scots banks pay a sum in proportion to the part so presented, though sometimes in case of notes partially destroyed by fire or otherwise full payment is made upon an affidavit being sworn to by the party in possession. The Bank of England pay full value for a half note after the lapse of a few months, on receiving a suitable guarantee.

Notes which have been lost or destroyed may be sued for in Scotland by a process for "proving the tenor" of the relative notes. In such an action the Courts are careful to throw the whole burden of proof on the pursuer, as to the fact and manner of loss, destruction, or other *casus amissionis*, and only after he has satisfied the Court on these points is he permitted to "prove the tenor" of the missing documents. The action may be by the loser or anyone having an interest, *e.g.*, his heirs or representatives. If successful in proving the tenor, the Court's judgment may prescribe such method of satisfaction or guarantee to the bank as shall secure it from future loss. Reference may be made to the case of Maberly & Co. *v.* The Bank of Scotland and Commercial Bank, 27th February 1822, 1 Shaw, 360-1, mentioned in a previous chapter.

An interesting case occurred in 1876. A customer of the National Bank in some mental aberration burned £3500 of that bank's £100 notes. His representative appealed to the Court, and after a hearing a joint minute was adjusted, and the bank was assoilzied. The facts agreed upon were:—In 1875, as the result of enquiry made at the order of the Court, it was ascertained that more than thirty-five £100 notes had been outstanding between the alleged date of burning and 8th May 1875. A new issue of £100 notes was prepared, the whole costs of these proceedings being at the pursuer's expense. Under the agreement (registered 21st December 1877) the bank were bound—so long as thirty-five £100 notes, old issue, remained out—to pay interest for twenty years

on the £3500, at 4 per cent. annually, and at the end of the period to pay the principal sum of £3500, both to the pursuer or her representatives, provided that none of the notes appeared in the interval, and that thirty-five £100 notes remained outstanding in 1895. In event of any so appearing at any time, all sums paid by the bank, whether principal or interest, were to be repaid to them by the pursuer or her heirs, with interest at 5 per cent. As there were still thirty-five notes outstanding in 1895, the principal sum was then paid to the pursuer's representatives.

FORGERY.—So far as bank notes are concerned, procedure in England is regulated by the Forgery Act, 1861, 24 & 25 Vict., c. 98, where secs. 12-18 and 48 deal with the various acts of forging, uttering notes, manipulation of plates, paper, etc. The extreme punishment is penal servitude for life, but sentences of fourteen years and lesser periods are allowed for minor acts. In Scotland an old statute of Alexander II. ordered amputation of the offending hand; and a later punishment of dismemberment of hand or tongue continued for centuries, accompanied by banishment. If a banished forger returned, whipping in the pillory was periodically administered until he was again carried overseas. The death sentence was not permissible under Roman law, the basis of Scots common law, unless upon a slave; and even after the introduction of the death penalty in 1573, the full sentence was only occasionally carried out, and only *pro modo admissi*, "according to the measure of the crime," the Courts having a wide discretion. With the numerous forgeries, of 1800 this discretion was withdrawn, and the highest pains of the law were ordained with true Georgian ferocity, "without benefit of clergy." The two Acts founded on in framing indictments for forgery, uttering, and other cognate operations are 41 Geo. III., c. 57 (1801), and 45 Geo. III., c. 89 (1805), both formerly applicable to Great Britain, but now confined to Scotland, as England

has its own Forgery Act, 1861. The Act of 1805 is that chiefly founded on, but having been drafted principally for the protection of Bank of England notes from forgeries in Scotland, it has caused much trouble to the Scotch crown authorities in framing indictments for forgery of Scotch notes.

Although the Act was passed specially to protect Scotland as well as England, by extending to the former the provisions of certain earlier Acts passed for England alone, yet its effect was disputed by the judges of the Court of Session in the case of Thomas Gray, charged in 1814 with possessing two Bank of England notes and two Bank of Scotland notes, all forgeries, for the sum of £2 each. "By the narrowest majority, they found that the Act of Parliament libelled, extended to notes issued by the Bank of Scotland, as well as to notes of the Bank of England.[1] Gray was accordingly convicted, and suffered fourteen years' transportation in terms of the statute.

Similar objections as to the relevancy of the indictments under these Acts appear in many of the early cases, and as late as the Greatrex case, 1866 (*see* p. 324). Mr Millar, afterwards Lord Craighill, the Solicitor-General on behalf of the Crown, unwillingly withdrew a charge under sec. 6, where it was complained that documents described in the indictment as "Promissory Notes for payment of money on demand purporting to be issued by the Union Bank" did not fall within the enumeration of that section which specifies "Bank Notes" or "Bank Bills." It is unfortunate that though the preamble of the Act is distinct as to the intention to extend to Great Britain "laws then in force for punishment of forgery of Bank" notes, etc. Section 1 (which concludes with the sentence of death for forgery) does not specifically mention "Bank Notes," though it mentions "Promissory Notes for payment of money"; while sec. 6, dealing with guilty possession, receiving, or uttering, mentions "Bank

[1] "Hume's Commentaries."

Notes" but not "Promissory Notes." The prisoner's counsel maintained that "Bank Notes" were by this Act considered different documents from "Promissory Notes," and apparently none of the judges was broad-minded enough to see that though all promissory notes were not bank notes, certainly all bank notes were promissory notes, and therefore that the greater class in clause 1 included the lesser in clause 6. The Court, however suggested that as the indictment charged the two lesser prisoners with "possessing and Uttering" under clause 6, certain documents called "Promissory Notes," instead of using the term "Bank Notes" according to the language of that clause—the particular charge should be withdrawn. In this feeble way proof of "possession" of 1300 Union Bank forged notes and "Uttering" of others was refused, because these notes were indicted as "Promissory Notes for payment of money" instead of "Bank Notes."

Further complication arose over these Acts in 1889, when the Bank of Scotland new £1 notes were forged by John Hamilton Gray Mitchell, an engraver. The notes were peculiar in having no written signature, and this fact coupled with the uncertainty of the Acts' application to Scotch notes led the Crown authorities to make no charge of forgery, but to allege intention to defraud the Bank of Scotland by uttering forgeries of its notes. Mitchell pled guilty, and received sentence of seven years' penal servitude.

If the crime of forging bank notes had not been so rare in Scotland these confusing Acts would have been repealed, and a new forgery Act passed dealing comprehensively with the crime. When they were passed, the multitude of forgeries of Bank of England notes led to some panic, and this was doubtless reflected in the "draftsmanship" of the Acts, the interests of other banks being almost neglected provided the Bank of England was protected. Apart from this the decisions of the Scottish Courts were mysterious, because the preamble of the 1805

Act is beyond dispute as to intention; and clause 1, though it does not use the words "bank notes," contains a broad provision, covering forgery of "any deed, writing obligatory, bill of exchange, or promissory note for the payment of money, or other security for payment of money." The Bench was peculiarly narrow in some of its decisions. In 1788 the forger of a note on a private banker was discharged because the note, not being that of a chartered bank or corporate joint-stock, was not properly "a bank note"!

The Scottish banks and Crown authorities would do well to initiate a movement for a new forgery Act for Scotland.

Capital punishment for forgery was abolished as to certain forgeries by Act 2 & 3 Wm. IV., c. 123, and by Act 7 Wm. IV., and 1 Vict., c. 84, transportation was substituted. A later Act, 20 & 21 Vict., c. 3 (1857), stopped transportation and substituted penal servitude or imprisonment for similar periods (at the Court's discretion) as were in use for transportation. It has been held in the Greatrex case that the Courts had this discretion, although the Act of 1857 was not libelled in the indictment. Lastly, the Criminal Procedure (Scotland) Act, 1887, 50-51 Vict., c. 35, sec. 56, after again withdrawing the death penalty, save for murder and certain special crimes of violence stated in 10 Geo. IV., c. 38, adds, "it shall be lawful to indict in the Sheriff Court persons accused of the crime of uttering a forged document." With this exception all crimes connected with forgery are tried before the Justiciary Court, although the Court of Session has certain powers of trial which it does not now exercise.

Not only the leaders in the crime, but all aiders and abettors, are punishable to the extent of their knowledge. The artist who engraves the plate, or the workman who prints the notes, are alike guilty, unless employed merely in trade, and in complete ignorance of criminal intention—according to the maxim, "The act does not make a criminal, unless there be criminal intention." But if they

know what they are about, or are to receive any part of the profits, "they are forgers in a one and complex undertaking" (Hume's Commentaries). It would seem that if the workman is in knowledge of the intention, and stops his work, confessing his purpose before any evil results have arisen, his crime will be overlooked, as a distinction has always been drawn between preparation, or *conatus*, and perpetrated crime; although any one relying upon such a doctrine in regard to forgery of notes is treading on dangerous ground, for the Acts make each conscious wilful step in the process a crime punishable as enacted.

The custody of forged notes after detection was a disputed point. Prior to 1818 the Bank of England had always retained such notes. At the end of that year a Mr Ranson, an engraver, paid a one pound note to a Mr Mitchener, which, on presentation at the bank, was declared to be a forgery and retained. Mitchener fell back on Ranson, who refused to pay unless he got the note from the Bank of England. To meet his wishes an inspector was sent from the bank—a Mr Fish—who at Ranson's request handed him the note for inspection, which that individual at once put in his pocket and refused to give up. This was more than the bank could brook, and in Fish's name they had Ranson lodged in jail on the charge of being possessed of a forged bank note. As no one appeared from the Bank of England to prove that the note was a forgery, the jury found him not guilty, whereupon he sued Mr Fish and obtained £100 damages for wrongous imprisonment. Since then the bank has merely stamped the word "forged" in several places upon the notes and returned them to the presenters, a practice which has been generally followed by the Scots banks. In this case, however, it was discovered that the bank had made the serious blunder of declaring a genuine note to be a forgery.

In 1768, in the case of Borland against the Thistle Bank of Scotland (February 1768, Morrison 877), it was

held that a banking company is not obliged to pay value for forgeries committed against them, and they are entitled when a forged note is presented to stop its further circulation by putting a mark upon it, certifying that it is a forgery.

NOTE EXCHANGES.—The first formal exchange in Great Britain, upon the system of the modern clearing-house, was begun in Edinburgh about 1752, though regular exchanges had existed for twenty years between the two senior banks. For some years during the infancy of the system settlements were occasionally demanded in gold, in order to compel the unwilling country banks to retire their surplus notes at regular intervals. No great progress was made with these lesser banks until the Act of 1765 gave the seniors the right to summary diligence on their neighbours' notes. From early times the final settlement appears to have been effected by drafts on London at ten days date, though about 1810 or 1815 there seems to have been some method of temporary settlement by a stock of Bank of Scotland £100 notes. In 1834, following a loss on the stoppage of a private bank whose exchange drafts were held by the banks, it was resolved that exchequer bills should be utilised; and on this basis an agreement was come to in February 1846, by ten of the chief banks of Scotland, the prominent features of which were—two exchanges to be held each week, upon Thursdays in the Bank of Scotland, and on Saturdays in the Royal Bank, the settlements being made on Thursday and Monday by means of exchequer bills of £1000 each; £100 notes of the three old banks, or of the Bank of England, being employed (with gold) to make up fractional parts of £1000. Arrangements were made for compelling banks with whom exchequer bills accumulated, to sell to banks who had run short. The bills were recorded in a special book, kept in the Bank of Scotland, and being marked "Edinburgh Exchequer Bills," were not to be used for any other

purpose. Exchanges of notes were also begun in the provinces.

This agreement was continued until 1864, when it was arranged to pay the balances by bills on London, drawn at a few days after sight; and in February 1876 the following rules were formulated, which, with some alterations by the revised rules of March 1880, and a few subsequent minor changes, are still observed:—

Instead of exchanges only twice a week, a meeting is held daily, except Monday, at 10 A.M.; a second exchange being held on Saturday afternoon, at 1.30, for large notes only. When Monday is a holiday, no exchange takes place on Tuesday. When Saturday is a holiday, an exchange is held on Friday afternoon. In case of holidays, the general settlement is held next day.

At least two clerks from each bank should attend at the hour stated, in the exchange room, and fifteen minutes afterwards the doors are shut, no more notes being allowed into the exchange; any dilatory bank must retire the notes handed to it, although too late to give any in return.

Each bank has a separate compartment; one clerk remains in this to receive notes, while his companion hands the packets to the clerks of the other banks. It is prohibited to place the notes in any compartment unless a clerk is there to receive them, nor is any clerk allowed to enter the box of another bank, as the doors should be locked.

Until all the notes received by each bank have been found correct no clerk may leave the room, and at least one clerk from each bank must remain until all the notes handed by his bank to other banks have been checked. Notes handed in by different banks are not to be mixed until all are checked and found to agree with the relative specification; and should any dispute arise, the bank which is found to have broken the rules in this clause shall be considered to be in the wrong, unless other conclusive proof be forthcoming. A competent staff is required from each bank, to the satisfaction of the settling

bank of the day, whose clerk must report any infringement of rules to his head office.

The Edinburgh Exchange is divided into two departments, namely, the exchange for notes, and the clearing-house for vouchers.

The settlements of the note exchange are made by debiting or crediting the clearing-house department, daily, for the balances arising. These sums are carried forward in the clearing-house, and continued until a settling-day wipes all out.

The final settlements are now made upon Monday and Thursday, at 2 P.M. So far as the note exchange is concerned these settlements embrace, first, that of Monday —the notes collected on Thursday, Friday, and large notes of Saturday, also the Glasgow and country exchanges of Saturday; second, that on Thursday covers the small notes of Saturday, and the notes of Monday, Tuesday, and Wednesday, also the country exchanges of Wednesday and the Leith settlement of Thursday morning. The amounts in the note exchange proper at Edinburgh are small when compared with those of the adjoining clearing-house; but it must be borne in remembrance that the volume of transactions in the latter is enormously swelled by the exchange vouchers, sent to their head offices by twelve hundred branches throughout the country, in settlement of their provincial note exchanges. The Glasgow exchange alone adds a very large sum to the Edinburgh clearing-house, where it appears only in the shape of vouchers. The proportion maintained among the different circulations also tends to equalise matters considerably, so that while the amounts passing through may be large, the balances arising are not necessarily so.

Some idea may be had of the extent of these transactions from the fact before mentioned, that each year notes are delivered in the different exchanges of Scotland exceeding £200,000,000.

The note exchanges being thus incorporated with the clearing-house, are worked out as follows:—The bank

having the largest debtor balance pays to the bank having the largest creditor balance; should any remain over, the debtor bank pays it to the second largest creditor bank, who receives the remainder of its amount from the second largest debtor bank; if the latter happens to have a small balance, and is therefore unable to pay the second creditor bank in full, the third debtor bank is fallen back upon, and so on in regularly diminishing order until all are paid. The form on the following page is a copy of that used in the clearing-house, and illustrates the method of settlement.

The payments were made for some years by bill on London, but since most of the banks opened branches there, instructions are sent to them to pay to the London office or correspondent of the creditor bank, four days after date, the sum required for the exchange. In event of the fourth day occurring on a holiday, payment is usually delayed until the next business day.

Interest is allowed at the current deposit receipt rate on the daily exchanges from day to day, two days being accounted for on Saturdays, or before holidays, and upon the two general settlements for the four days during which payment is postponed, additional interest being paid for any day or days of delay through holidays; the amount in all cases being added to the exchange voucher or London payment.

The Bank of Scotland and the Royal Bank carry through the settlement upon alternate months, but neither incurs any responsibility thereby.

Should any bank fail to effect the payment in London within the proper time, and be unable to give a "prompt and satisfactory explanation of the cause," it is liable to be excluded from the exchange-room and clearing-house.

Exchanges of notes exist in Glasgow and all other towns, where there are two or more banks, every business day except Monday, with a final exchange on Saturday afternoon.

A rule of the Edinburgh clearing-house says, that "all

exchangeable notes received at country agencies must be exchanged there, and are on no pretext to be forwarded to meet the exchanges in Edinburgh or at the other agencies."

Example of Clearing-House Settlement,

INCLUDING BALANCES OF NOTE EXCHANGES AT EDINBURGH.

In favour.	Banks.	Against.	Payments.	To whom paid.
£ s. d.		£ s. d.	£ s. d.	
...	Bk. of Scotland	70,482 10 1	63,489 0 4 6,993 9 9	To National To Commercial
39,477 13 7	Royal . .	...	...	...
...	British Linen .	65,293 9 6	36,298 5 11 28,995 3 7	To Commercial To Royal
43,291 15 8	Commercial .	...	...	...
63,489 0 4	National . .	...	...	...
28,701 5 0	Union . .	...	...	...
...	Clydesdale .	27,773 0 11	10,482 10 0 17,290 10 11	To Royal To Union
...	No. of Scotland	11,410 14 1	11,410 14 1	To Union
174,959 14 7		174,959 14 7	174,959 14 7	

1st debtor, Bank of Scotland .	£70,482 10 1	pays to
1st creditor, National . . .	63,489 0 4	
Leaving . . .	£6,993 9 9	over from Bk. of Scotland
paid to 2nd creditor, Commercial .	43,291 15 8	
Leaving . . .	£36,298 5 11	still due to Commercial.
Paid by 2nd debtor, Brit. Linen Bk.	65,293 9 6	
Leaving . . .	£28,995 3 7	due by Brit. Lin. Bk., and
paid to 3rd creditor, Royal . .	39,477 13 7	
Leaving . . .	£10,482 10 0	still due to Royal.
Paid by 3rd debtor, Clydesdale .	27,773 0 11	
Leaving . . .	£17,290 10 11	over from Clydesdale, and
paid to 4th creditor, Union . .	28,701 5 0	
Leaving . . .	£11,410 14 1	still due to Union.
Paid by 5th debtor, N. of Scotland	11,410 14 1	to clear account.

Note.—The above figures bear no proportion to the actual figures, and are merely for illustration of method.

When the balances of these country exchanges are below £100, they are debited and credited by local vouchers to accounts kept in the current account ledgers

of the branches. These are brought into next day's exchange, and carried on until they amount to over £100, or until Saturday afternoon, in which cases the balances are cleared off by exchange vouchers on Edinburgh.

In order to reduce the circulation as much as possible, in view of the Act of 1845, the subscribing banks bind themselves to bring into the exchange all exchangeable notes they have in their possession, and not to issue notes of another bank without sanction first asked and obtained.

The banks in the Exchange and Clearing-House are as follows:—

The Bank of Scotland.

The Royal Bank of Scotland.

The British Linen Bank.

The Commercial Bank of Scotland, Limited.

The National Bank of Scotland, Limited.

The Union Bank of Scotland, Limited.

The Clydesdale Bank, Limited.

The North of Scotland and Town and County Bank, Limited.

CHAPTER XVI

THE MATERIAL AND MANUFACTURE OF BANK NOTES.

"Being asked why in Scotland they've paper for gold,
A satirical jade, who let nothing escape her,
Made an answer at once both convincing and bold,
Where there's plenty of rags, there is always much paper."
The Bee, August 1792.

THE two chief requisites of a one pound bank note are, that it should be of such strength as to stand the tear and wear to which it is subjected, and to be so contrived as to present the fewest points of attack to the forger.

The Bank of Scotland had not been in existence over six years, when they had to adopt some means whereby imitation of their notes would be made more difficult, and detection of fraud more easy.

Schoolmasters and engravers were the first forgers in Scotland, a fact on which Dr Dryasdust may base such hypothesis as he thinks fit. The early notes both of the Bank of Scotland and the Royal Bank, even after they had invented "special checks against forgery," were bald and simple in design, and roughly engraved in comparison with those of the nineteenth century. The printing and the watermark were good features—the former being generally cleanly done, and the ink retaining its deep black notwithstanding the lapse of years. The watermark was produced by the venerable wire process, specimens of which are extant on various MSS. dating back to the thirteenth century. When the Bank of Scotland began business, paper-making was in its infancy in Scotland, the

first company beginning on the Water of Leith in the same year that the bank opened, so that possibly the paper for their first notes came from France or Holland.

MANUFACTURE OF PAPER.—Bank notes are made from new linen rags, of good quality, as the better the material, the tougher and lighter is the note.

From the small size of the notes, and the supposed necessity for the paper having deckle edges, most of the bank note paper was produced by modifications of the old "handmade" process; but machine-made paper is now in common use, having the advantage of more uniform thickness. The rags are cut, sorted, dusted, washed, bleached, and comminuted by rotary motion in various cylinders fitted with knives and beaters, in which they are placed, with proportions of water and caustic alkali, to reduce the material to the pure vegetable fibre, until the liquid pulp is poured out upon the wire frames which first convert it into something like paper. These are composed of a network of fine wire stretched on frames of the same size as the paper to be made. Into this rectangular network of wire are sewed the designs of the watermark, usually in wire or brass work of various breadth or thickness. The Bank of England's watermark is produced from brass dies, which ensure that every repetition of the mark, to almost any number, shall be absolutely identical, a degree of accuracy which it would be impossible to acquire with the wire process in such a complicated mark as that upon their notes.

The required pattern is engraved on steel-faced dies, which are afterwards hardened by being heated and then plunged into cold water. To prevent any change from the dies wearing out, they can be impressed upon soft steel plates which in turn can be hardened, and so the original mark may be multiplied almost *ad infinitum*. The die, once made, is used by a stamping machine to give its impress to soft plates of sheet brass, which thus become embossed, "and are filed at the back to the requisite

proportions to allow the moisture of the pulp of the paper to pass through the apertures. The different pieces of brass, when struck, filed, and put together, form the mould for the manufacture of the paper."[1]

When one mould wears out, a new one is struck, mathematically the same as the old, the only care required being in the filing of the raised parts of the back.

The peculiarities of a genuine watermark lie chiefly in the different shades produced by the varying thicknesses of the paper. When the note is wetted, these appear more distinct in a good note. In a spurious watermark produced by pressure, such as many of the old forged notes bore, damping destroys the mark altogether, as it swells the fibre of the paper, the pressed part in consequence becoming as thick as the other. A pressed or rolled mark is smooth and greasy, compared with that on a genuine note. There are also the tests of reflected and transmitted lights. In a transmitted light, obtained by holding the note between the eye and the sun, the thicker parts of the paper appear dark; while under a light reflected down upon the paper, these dark parts appear lighter, as they have more white pulp in their thickness than the other parts. A pressed or photographed watermark exhibits none of these characteristics, and may therefore be easily detected, although by photography it is surprising how the appearance of the mark seems to be worked into the very texture of the paper. But even photography will not stand both tests of examination by transmission and reflection of light; in one light or another failure is certain, and the fraud may be detected. Owing to the greater protective value now attached to high-class engraving and colour schemes, some banks have abandoned watermarks as a security, as many have also abandoned the deckle or raw edge on the paper of their notes.

In handmade paper each sheet is made the size of two

[1] Journals of Society of Arts; article by Alfred Smee, F.R.S.; extracted from Mr E. Wilson's "How to Detect Forged Bank Notes."

notes, and is cut down the middle before printing. After the pulp has settled upon these moulds before described, the superfluous moisture escapes through the interstices of the wire or brass work, leaving the fibre in a damp and partially coagulated condition; this is carefully removed, and passed through felt rollers and heated steel cylinders to dry, smooth, and harden it to the required texture.

When this process is completed the paper is again slightly moistened, and about one grain of "size" is added to each note, the material used being any substance with sufficient gelatinous properties, such as skin, parchment, fish bones, etc., into which is mixed a small quantity of alum to harden it. The superfluous "size" having been removed by pressure, the paper is again taken to the drying-room, after which it is counted and packed in reams ready for delivery, each ream containing five hundred sheets, or twenty quires of twenty-five sheets each —two notes to a sheet. The paper, when ready for printing, is as carefully guarded and counted as if it were cash, being usually placed under the charge of the bank's cashier until required.

ENGRAVING AND PRINTING.—The engraving of the old one pound notes was the part in which the mechanical skill of the time was furthest behind. The designs were made up of a quantity of flourishing, more or less elaborate, down the one side, by way of a check mark, the remainder being taken up with the words and figures of the promise. In the eighteenth century, printing gave little encouragement to engravers, hence they were few, their work was dear, and often poor in result. This kept the banks from expending money upon an elaborate design, and simplified the work of the forger immensely. The workmanship of the Royal Bank note of 1750 for £12 Scots, shewn opposite, may be taken as a specially good note of the period; but careful examination reveals many weak points. Practically all the illustrations in this volume are inserted as part of the argument against the

fear of forgery in England, a fear which manifests itself at every parliamentary enquiry. Forgeries were committed because the notes were so easy of imitation, and in England the absence of a note exchange prevented detection at the various banks so early as in Scotland. Modern high-class mechanical engraving has changed the circumstances completely, so that notes can no longer be concocted by any neat-handed penman and apprentice engraver. Forgery of bank notes as printed in 1800 was practically open to the crowd; now only a select few would attempt it. Recently, in an honest and open competition, the highest skill in the United States could produce merely a poor imitation of a certain British note which shall be nameless. The invention of the rose-engine or geometrical lathe would have practically closed the forging era (as the period 1799 to 1824 may truly be called) had the banks engraved their notes by its aid. Unfortunately none did so for many years, although the Society of Arts of London published a report of an enquiry into this subject in 1818, which contains examples of lathe-engraving as exquisite as anything that can now be done. But no use was made of them, neither banks nor Government appearing to have had any ideas save to suspend the crime and the criminal simultaneously; and notwithstanding much deliberation no practical improvement was manifest in the engraving of their notes, beyond the introduction of a few vignettes. Even these, small as they were, gave some protection and enabled forgeries to be sooner detected.

Under the humane influence of Sir Samuel Romilly, Sir James Mackintosh, and others, public feeling began to revolt at the number of executions for forgery; and both bankers and judges realised that "prevention is better than cure," and that to remove temptation from the criminal was as much a duty as it was to award punishment for the crime. It is illustrative of William Paterson's fine nature that so early as his day he had protested against the folly and cruelty of the law on this subject.

So far as Scotland is concerned, soon after 1830 a better style of engraving was adopted, the National Bank upon this occasion setting the example. The large book trade of Edinburgh gave ample employment to such high-class engravers as the Messrs W. & A. K. Johnston and Mr A. H. Lizars, who speedily raised the Scots bank note to a high standard of excellence for the period.

Prior to 1837 copper plates were used, and from their softness caused much trouble and expense in their renewal. At that time, however, the reproduction of designs by mill and die was brought to this country by Messrs Perkins & Heath, the predecessors of the now famous house of Perkins, Bacon, & Co. The founder of the firm, Mr Jacob Perkins, was born in Massachusetts, and came to England to push his notable invention.

The first engraving by this process is upon soft steel, which on completion is hardened. This plate is not used for printing, but as a die from which many impressions are taken upon soft steel plates afterwards hardened. In this way the absolute identity of every plate with its predecessor is ensured, and years may elapse without any difference becoming observable. In addition to very fine powers of engraving vignettes, Mr Perkins adapted the old rose-engine (for turning patterns upon the backs of watches) to the use of the profession of which he soon became the head, and it is by aid of this tool—now called the geometrical lathe—a purely mechanical operation—that some of the finest parts of bank notes are produced.

The vast saving of labour and time effected by these means is almost incredible. Taking an extract regarding the firm's work upon the postage stamps, and supposing that the new modes had never been invented:—"It took Mr Heath a fortnight's hard work to engrave, on the original steel die, the profile which is the progenitor of all the rest" (that of Queen Victoria). "Since the introduction of cheap postage, Messrs Perkins, Bacon, & Petch have transferred the matrix upon one hundred and forty-two plates, each having two hundred and forty heads upon

it. In other words, the number of single heads given off from steel to steel has been thirty-four thousand and eighty. Every one of these, but for the transferring process, must have been engraved laboriously by hand, at the expense of a fortnight's time." To keep up such an amount of engraving would have required one hundred and ten first-class workmen, and as these sentences were based upon the figures of 1850, it may be imagined what is the economy now.

The foregoing refers entirely to line-engraving as seen in ordinary steel-engravings, where the lines forming the picture are cut out of the steel plate, but some firms prefer relief-engraving, where the lines of the picture stand up in relief, the other portions being cut out as in a wood-cut, the difference being that between an intaglio and a cameo seal. The steel line-engraving can produce the finest work, and on that account is now preferred, apart from the fact that the geometrical lathe is not adapted to relief-engraving.

The one point aimed at in engraving was, of course, "inimitability." To secure this, not only was quantity of work needed, but superior quality of art, as also variety of work. For all those purposes the engine machinery can be turned to endless advantage. Being accomplished by a peculiar lathe, the process is difficult of imitation by a forger; manual imitation is almost futile, from the time needed for the task. The elaboration on the Scots notes of "one pound," written nearly two thousand times in each, is chiefly produced by mechanical means, the "stump engraver" being employed for this purpose.

A further improvement in Messrs Perkins, Bacon, & Co.'s method of transferring to steel, is to have the original plate made up of a number of separate dies, which can be put together when required, and render it all the more difficult to obtain an impression without combination amongst the employees. Thus, from beginning to end, provided the plates are not allowed to get into wrong hands, the work requires that those perfecting it must

be artists of no mean ability and skill—men who could receive so handsome an income as the reward of their honest labours, that the probability of their giving time and attention to that which can only ensure their destruction, is as remote as it can be.

The introduction of photography brought a new foe to the front, and put banks and forgers once more upon the *qui vive.*

Up to the middle of the nineteenth century all notes had been printed in black—a colour suitable for photographic purposes. Various methods were introduced with a view to secure the note against this danger; amongst these the most important is printing with coloured inks, and adding some ornamental device upon the back of the note, so that when printing in the sun these back designs come through, appear upon the front, and foil the forger's plan. Photographic imitations of the watermark have already been referred to; and we may quote from Mr A. Claudet's letter to *The Times*, about 1850, regarding the effects upon different colours:—"In photography, red, orange, yellow, and green produce black; while blue, indigo, and violet produce white. Now, from these different properties of the various colours, it is evident that a bank note, with its printing, emblems, devices, writing, etc., printed in variegated colours, would offer the greatest difficulties to the perpetration of the fraud; for the lightest colours to the eye would produce the darkest effect in the copy, while the darkest colours, such as blue, indigo, and violet, would be hardly represented at all, or but very slightly. It is indeed fortunate that photography, while offering to the forger the temptation to exercise his dangerous skill, at the same time teaches us the means to render his attempts abortive. The Bank of England, and bankers in general, instead of issuing notes in their present dull state of black and white, have only to transform them into the most elegant and ornamental coloured designs, and they will frustrate all attempts of the forger." Unfortunately modern chemistry

can alter the colours it has produced, so that colour alone is no longer such a protection against photographic reproduction as Mr Claudet anticipated.

The idea of coloured paper was abandoned; a white ground being chosen, and coloured inks employed in printing.

In the well-known case of the Greatrex forgeries of the Union Bank notes in 1866, photography was abandoned for lithography. Two men appeared in Dalkeith at a draper's shop, and tendered a Union Bank note in payment of purchases. A shopman, suspecting their designs, went out into the street on pretence of getting change, and called the police. On the men being searched, over thirteen hundred forged notes were found on their persons. These were only the utterers; the artist, a Glasgow photographer named Greatrex, fled to America. Thither he was followed by a British detective, Captain M'Call, afterwards chief constable of Glasgow, accompanied by one of the bank's officials, who traced him to New York. There the official spiders spun their web, advertising in the New York papers "A first-class photographer wanted." In a few hours the fly walked into the parlour, whence he was transported to Scotland, to receive in the Edinburgh Justiciary Court sentence of penal servitude for twenty years. He died in prison.

The necessity which was forced upon the banks at an early period of having each note identical with every other, was the means of taking the Scottish note business largely away from Scotland to London, as such perfection of manufacture could only be obtained through Messrs Perkins & Co.'s patent process, which no other maker could use during the continuance of the patent. Other manufacturers could only ensure that from 40,000 to 50,000 notes would be identical, one plate giving off that number of impressions before being worn out, after which a new plate had to be engraved—a task in itself, not only expensive, but extremely difficult of execution, as the most accomplished workman cannot produce two

steel plates perfectly similar. The lapse of their patent, and subsequent inventions, have upset the well-merited monopoly of the London firm, as all good engravers can now attain the same identity in their notes. The first of the two principal discoveries which have realised this change, consists of printing from electrotypes. Bank of England notes are produced thus at the rate of about 50,000 daily, to replace an equivalent number withdrawn from circulation in the same time.

The second invention to secure identity, is to engrave an original steel plate, which, when hardened, is kept solely to impress its image upon plates of copper. These could be used for printing, as formerly, were it not that the softness of the metal compared with steel would necessitate frequent renewal. To obviate this, the copper surface is coated with an electro-deposit of steel, so fine as not to interfere with the most delicate lines, yet so hard as to give a much longer life to the plate; when the steel wears out, it can be renewed without the least injury to the copper bed of the engraving. This process is called "acierage," and may be also applied to electrotypes of copper.

Before printing, all paper ought to be damped to soften the surface, as where this is omitted, the printing is defective and unequal. In the Bank of England this is accomplished by placing a number of reams in a chamber, from which the air is pumped out, water being pumped into its place, with the result that in an incredibly short time the solid mass of paper is thoroughly damped; on being removed, superfluous moisture is driven off by pressure.

Scottish notes are printed from steel plates, or copper plates steel-faced, and weigh when ready for issue from 24¼ grains for the Bank of Scotland, Royal, Commercial, and National banks, to 25¼ grains for the Union Bank, 26¼ for the British Linen, and 26¾ for the Clydesdale banks; the heaviest being that of the North of Scotland grains. A Bank of England £5 note, from the

exquisite tissue of its paper, weighs only 18¼ grains, though its superficial surface is 85½ centimetres larger than the smallest Scottish note, that of the Commercial Bank, and 52 centimetres larger than those of the Bank of Scotland and North of Scotland Bank.

The Bank of Scotland note is printed by Messrs G. Waterston & Sons, Edinburgh, and has a watermark with interlaced border, broad at the top, with the words "Bank of Scotland £1 ONE £1." The paper is somewhat brittle, but it is part of the bank's design to compensate an inferior paper by more frequent issues of new notes. So effectively do they carry this out, that one million one pound notes are printed every year. The Royal and Clydesdale banks' notes are engraved by Messrs W. & A. K. Johnston, Ltd., Edinburgh; the former are printed on a very beautiful paper, clear, tough, and light, with watermark "Royal Bank of Scotland." The bank's name on the Clydesdale's watermark is indistinct. The British Linen, National, and Union banks employ Messrs Waterlow & Sons, Ltd., London, and their marks are "B. L. B. One Pound," very prominent, and "Union Bank of Scotland Limited," almost illegible from the effect of the back-plate. The National Bank has no watermark, relying on the bewildering effect to the would-be photographer of the elaborate back-plate, which shines through upon the massed golden rays and vignette work of the front. Without much disparagement of several of the other notes, the National Bank probably possesses the note which would give a forger the greatest trouble to imitate; the combination of colour on front and back on the thin and transparent paper used, being peculiarly well planned. The Commercial and North of Scotland banks' notes are printed by Messrs Bradbury, Wilkinson, & Co., Ltd., London. The former, on the same principle as the National, has no watermark, while the latter has an ideal watermark in the bust of George, Fifth Earl Marischal, founder of Marischal College, with ruff and beaver of his period, 1593.

These various notes represent broadly two classes of design and work. The British Linen, Commercial, National, Union, and North of Scotland banks place reliance chiefly on the exquisite detail of engraving produced by the geometrical lathe in combination with fine vignette work. A beautiful example of lathe-work appeared on the old notes of the Bank of Scotland issued prior to 1886, but in nearly all the existing notes of this class fine examples can be seen, which approach more closely to nature's works than almost any kind of artistic effect—the more they are magnified the more perfect they appear. The celebrated Lizars, in one of his designs for Bank of Scotland notes, produced some very good work of this class, balanced by equally good effect in his "line" and vignette work.

In the notes in the second class, the Bank of Scotland, Royal Bank, and Clydesdale Bank trust for security to simplicity and a breadth of general effect which will catch the public eye, rather than to a mass of intricate engraving. The Royal Bank note—the oldest of existing designs—is the best example of this class, its beautiful blue colour and fine paper giving it a very handsome appearance. The ink with which it is printed has peculiar lasting qualities. A packet of notes representing ten of the then existing Scotch banks was closed up in a wall for nearly fifteen years, subject to damp and the effects of lime. When discovered, the only colour which shone undimmed was the blue of the Royal notes, almost as fresh as when first immured.

It may scarcely be prudent to discuss publicly the respective merits of the two systems, but it may be mentioned that one of London's most famous engraving firms "consider the engine-turned parts of the plate a more effectual protection against forgery than vignettes; but," they add, "it is very desirable to combine as many kinds of security as possible." The absence of engine-work from certain makers' designs, as a predominating feature, is on account of their considering the vignette parts the better

security, as requiring greater personal skill for successful imitation, independent of the purely mechanical problems wrought out under the lathe.

Nearly all manufacturers agree in regarding the "general effect" of notes as an important element in their security. The more minute and intricate the design, the more difficult it is to reproduce it by engraving; but just in proportion to its intricacy it may be easy to imitate the "general effect," for, of the mass of the public, few remember distinctly the peculiar pattern of minute engine-work, although many recognise the leading outlines and general appearance, especially where a well-known view heads the plate, such as the King's College at Old Aberdeen in the old North of Scotland note, or the Marischal College in their notes of to-day. The Union Bank note has, through several changes in the detail of its design, continued the fine "general effect" created by its "arms" at the top and the two well-known statues at the foot. These equestrian figures have continued since prior to 1845, and one of them appeared on Sir William Forbes & Co.'s notes so far back as 1789.

The cost of small notes, including paper, is about 1d. per note; those of the British Linen Bank have been calculated by the late Mr Mackay, the bank's accountant, at 1·043d., and their large notes at 1·135d. The other banks may fractionally vary from this, the size of the paper or design and the amount of ink used making a slight difference upon the total. They are usually estimated for per thousand. When the printing is dried, the notes are numbered by a numbering machine, after which they are packed flat in lots of one thousand each, and delivered to the bank to be signed. When given out to the tellers one pound notes are usually tied in bundles of £500, made up of twenty-five packages of twenty each, folded in two for security.

From the severe handling they receive, small notes are removed from circulation practically every two years, as at the end of that period they become unfit for re-issue.

The abolition of the Government stamp on the back, permitted on the commutation of the duties, has enabled the banks to maintain a cleaner issue than formerly, when each note burnt implied a loss of at least 6d. The number of notes now burnt is enormous, almost the entire circulation having to be removed and replaced in a few years, although a number remain in circulation for a longer period, especially in the northern parts of the kingdom.

Each note has its own bit of history to tell. The old bank alone bears "Constituted by Act of Parliament, 1695." If it omits the term "Scots Parliament," it atones for the omission by its engraving of the Scottish Great Seal of 1695, exhibiting on the obverse the motto "*Deo favente*, 1695," with King William of Orange on horseback. Edinburgh Castle lies in mid-distance, backed by the Forth with its shipping and the hills of Fife. On the reverse, the king is correctly designed "Second" of "Scotiæ, Angli. Fran. et Hib." The royal arms are those carried from 1694, when Queen Mary died, to William's death in 1702. The first and fourth quarters bear the Lion Rampant of Scotland, the second grand quarter shews first and fourth the Lilies of France, and second and third the Leopards of England, while the third quarter bears the Harp of Ireland. Over all, the centre carried a shield of pretense, the king's own arms of Nassau, the field blue, with billets, and the gold Lion Rampant. At the top of the note are the bank's arms, the saltire on an azure field with four bezants supported by two female figures, "Abundance" and "Justice," with the motto, "*Tanto Uberior*"—"By so much the richer." After the forgery of this note in 1889, there was added to the body of the design a finely engraved copy of the bank's seal, in soft metallic grey, containing an emblematic figure of "Scotia," crowned and seated with cornucopia in her right hand and a thistle in the left.

The Royal Bank shews the face of King George I., with the date of origin, 1727. The British Linen Bank carries the royal arms for Scotland, with the national

Unicorn on the dexter side, bearing the flag of St Andrew, the English Lion supporting the sinister with St George's flag. The quarters of the shield are, first and fourth, Scottish Lion; second, English Leopards; and third, Irish Harp. Over all, in the centre, are fixed the arms of Hanover, divided into three, like an inverted Y: No. 1 for Brunswick, two gold lions, *passant gardant;* No. 2 for Lüneburg, the gold field sown with red hearts, bearing a blue lion rampant; and No. 3 (at foot of the shield) for Westphalia, a silver horse running on a red field. In the centre of this shield, in turn, is an interesting and very small third shield, of pretense, charged with the gold crown of Charlemagne on a red field. These arms were in use in Scotland from 1714 to 1801. Over the arms are the words "Incorporated by Royal Charter, 1746." At the side of the note Minerva sits,[1] with spear, shield, and lion, bearing in her right hand a stalk of flax in flower. The Commercial Bank has vignettes of its offices in Edinburgh, Glasgow, and London, bearing at the base of the note a graphic reproduction of David Rhind's fine sculpture which adorns their façade in George Street, Edinburgh. Peace in the centre is attended by Justice, Plenty, Literature, Mechanics, Mathematics, Invention, and other figures. The elaborate back-plate bears a vignette with a figure representing "Commerce," seated and crowned, and the motto "*Ditat Servata Fides*"—"Good faith enriches," or "Keep faith and prosper."

The National Bank maintains the lead which they took early last century in the production of notes of high protective power against forgery. The face of their note bears vignettes of the late Marquis of Lothian (the bank's late governor), Edinburgh Castle, the Clyde at Glasgow Harbour, and Holyrood Palace, the three latter perfect examples of the graver's art. In the centre are the royal arms of Scotland, the Lion Rampant with Unicorn supporters, and underneath on a shield the

[1] "That a seal be made for the company in the figure of a Pallas" (Minerva), *Scots Magazine*, 1746, p. 624.

bank's arms, St Andrew behind his cross, with sheaf and ship on his right and left side respectively, and the motto "*In Patriam Fidelis.*" The whole plate is illumined with broad golden-red rays containing numerous repetitions of the words "one pound." The back-plate is an example of combined engine and vignette work of unsurpassed beauty and perfection of execution. The vignette represents Edinburgh in the days of the ugly old North Bridge, and before a hotel tower had hid the Scott monument from the Calton Hill. Messrs Waterlow may be proud of their work on this note. The Union Bank revives the old memories of Sir William Forbes & Co. and the Glasgow Union Bank, by its cartouche of the united arms of Edinburgh and Glasgow, the tower of David II., the unnamed peel tower, and the Constable's tower forming the east curtain wall of the Castle, cast down in the siege of 1573, along with the oak-tree, salmon and ring, bell and redbreast of St Mungo, the whole supported by figures representing Commerce and Justice. At the foot are the statues, Charles II. in the Parliament Square, Edinburgh, and the more noble King William, in the Trongate of Glasgow. A highly ornate back-plate materially adds to the security of the note. The paper is well adapted to its purpose, thin, tough, and transparent, permitting the back-plate to shine through to the front. The Clydesdale Bank note carries at top a shield of the Glasgow arms and motto, supported by three female figures, with engravings of the old Broomielaw and Dunbarton Castle. At the foot are two small views of the Clyde and the old Cathedral, attended by three other nymphs. Lastly, it is a pleasure to see that Scotland's last Northern bank has produced so safe and elegant a note under its new name of the North of Scotland and Town & County Bank Limited. The engraving is of the highest quality. The new Marischal College appears in vignette at the top. The dark shading on the top pinnacles detracts slightly from the beauty of the tower, one of the stateliest in Britain. The right border is filled with three coats of arms. First, those of

the two conjoined banks, described as follows in the Extract of Matriculation in the Lyon Office as supplied to the bank:—

"Quarterly, first and fourth, Chequy Or and Azure, a saltire between three towers triple towered, one in chief and two in flanks Argent, masoned Sable; second and third Gules, a bezant between two towers triple towered Argent, masoned as before in chief and a garb Or in base, and on an Escrol above the shield this Motto '*ne nimium*,' and on a compartment below the shield bearing this Motto '*Fide et Industria*,' are set for supporters, on dexter a leopard, and on the sinister a stag, both proper."

Below, in the middle of the border, are the arms of the County of Aberdeen:—Quarterly, first blue, three garbs (wheatsheafs) gold, for Buchan; second, blue, a bend between six cross crosslets, fitchée, gold, for Mar; third, gold, a fess chequy silver and blue between three open crowns red, for Garioch; fourth, blue, three boar's heads couped (cut), for Gordon. At the foot are the well-known arms of the Granite City; red, three towers, triple towered, within a double tressure, counter-flowered silver, supported by two leopards, proper, motto "Bon Accord." The note is printed on very thick web paper of a blue tinge, back and front with a yellow ground. The back has a beautifully engraved circlet containing the arms of the bank, as already described. The mottos every banker should remember: "Do nothing in excess"; "By fidelity and diligence." The geometrical lathe-work on the side borders could scarcely be surpassed for minutiæ and purity.

Of the eight bank notes described, five are payable in Edinburgh, one in Glasgow, one in Aberdeen, and one—the Union—meets public convenience by having its notes payable both in Edinburgh and Glasgow. The Bank of Scotland note is singular in having the only signature printed. Such are a few of the features of the Scots bank notes, which have filled, and daily fill, so important

a part in the everyday life of the nation. They are evidences of the power of "faith," and "good faith," for surely no other power could transmute pieces of printed paper into rights whereby Scotland can adopt the motto of its first bank: "*Tanto Uberior*"—"So much the richer."

CHAPTER XVII

THE ADAPTABILITY OF THE ONE POUND NOTE TO ENGLAND.

"Gold, gold, gold, gold!
Heavy to get and light to hold;
Price of many a crime untold;
How widely thy agencies vary:
To save, to ruin, to curse, to bless!
As even thy minted coins express—
Now stamped with the image of good Queen Bess,
And now with a bloody Mary."—HOOD.

"HERE stands Theory, a scroll in her hand full of deep and mysterious combinations which you must take on trust, for who is capable to go through and check them? There lies before you a Practical System, successful for upwards of a century. The one allures you with promises, the other appeals to the miracles already wrought on your behalf. The one shews you a problem which has never been practically solved, the other provinces, the wealth of which has been tripled under her management. Here you have a pamphlet, there a fishing town. There the long-continued prosperity of a nation, and here the opinion of a professor of economics, that in such circumstances she ought not, by true principles, to have prospered at all."

In these sentences Sir Walter Scott contrasts the practical advantages derived from £1 notes in Scotland with the ideas actuating Lord Liverpool when he sought to abolish such notes in the North, as he was doing in the South. It is always dangerous to establish new or to

demolish old institutions upon theories which have never been tested by experience. For this reason almost no attempt is made in the following chapter to prove the adaptability of one pound notes to England upon grounds other than those which have stood the trial of a long experience. For the purpose in view Englishmen are fortunate in not requiring to base opinions upon any theory, however complete, as in the experience of their own country for nearly a hundred years, they have a fund of evidence which will enable them to decide:—

I. Whether this small note was the dangerous thing it was represented to be?

II. What were the different circumstances in England as compared with Scotland, which caused it to be so represented, and finally abolished?

III. Whether these circumstances have been altered since 1826? and,

IV. What are the probabilities of success now, were the Acts of 1826 and 1844 to be partially repealed, so far as they relate to one pound notes in England?

In order satisfactorily to answer these questions, it is necessary to go to the very origin of English banking when the great Bank was founded. It may be said of the financial schemers of that time, that if Scotland was scourged with whips, England was chastised with scorpions. Lowndes, Chamberlain, Law, Mackworth, Brisco, and, a a little later, the South Sea Company, flourished about this time. Had it not been for the restraining influences of Sir Isaac Newton, John Locke, William Paterson, and Montague, the evils perpetrated would have been more serious, though perhaps in their very greatness might have been found their cure; for had Chamberlain and Law been able to carry their theories into practice, the inevitable catastrophe might have swept away, not only these particular evils, but others which by their influence or tradition still bar the road of the one pound note.

Chief among these was the monopoly of joint-stock banking, concurrent with a note issue, granted by the

Government to the Bank of England in 1697. The pressure on King William's Government at this period made them too ready to transfer public rights to any who could furnish the last "louis d'or" for the contest with Louis XIV. The Act founding the Bank of England, 5 & 6 W. & M., c. 20 (1694), is silent as to the issue of notes, and confers no exclusive privilege, unless the clause rendering the Bank's bills assignable at law may have referred to bank notes, as the word "tickets" did in Scotland. By Act 8 & 9 William III. (1697), c. 20, s. 28, it was enacted that, during the existence of the Bank of England, no corporation, society, or company, of the nature of a bank, should be erected or permitted in England by Act of Parliament. As this did not debar private joint-stocks, it was taken advantage of by the promoters of the "Money Bank," whose subsequent history gave too good excuse for the additional monopoly given to the Bank of England by Act 7 Anne, c. 7 (1708), of which the famous clause 61, repeated from 6 Anne, c. 22, was as follows:—

> "During the continuance of the Corporation of the Governor and Company of the Bank of England, it shall not be lawful for any body politic or corporate whatsoever, created or to be created (other than the said Governor and Company of the Bank of England), or for any other parties whatsoever, united or to be united, in covenants or partnership, exceeding the number of six persons, in that part of Great Britain called England, to borrow, owe, or take up any sum or sums of money on their bills, notes payable on demand, or at any less time than six months from the borrowing thereof."

This clause, originally aimed at such concerns as the Money Bank or Brisco and Chamberlain's Land Bank, was not repealed when the necessity for its existence passed away, and still exercises in lessened degree its influence on English banking.

William Paterson had foreseen, as early as 1696, that the Bank of England would not suffice even for London, much less for all England; and after the resignation of his seat in the directorate, he endeavoured to establish joint-stock banks of issue in the metropolis, but his efforts

did not meet with success. They were doubtless too practical to have attraction for the company jobbers of his time. A fair exhibition of the public estimate of his character was given, when the London stockbrokers burned his "Wednesday Club Dialogues" in front of the Exchange about 1700.

Great as had been the Bank's services to the Government in enabling it to carry on the war, the price paid was a heavy one, for apart from the permanent increase of national debt by £15,000,000, the Bank's profit was a perpetual mortgage over the banking interests of England, which were then bartered by an impecunious Government. It would be vain to look for a higher standard of morality in the Bank than in the two parties, Whig and Tory alike, who gave it its being and wrangled unscrupulously for power. By its subservience to the rulers of politics the Bank has given the means of carrying on wars which should never have been begun. In its race with the South Sea Company, it was fortunately beaten by the latter, whose proposals were accepted by Government. Had the result been otherwise, writers might have recorded the bursting of the "Bank Bubble" instead of that of the "South Sea."

While thus absorbing to itself such privileges, the absorption necessarily left other members of the banking profession proportionally weak, from the deprivation of their natural rights. The history of English private banking up to this period had been progressive and honourable. Checked for a time by Charles II.'s seizure of the exchequer, it was beginning to revive under the new dynasty, and would soon have developed itself into larger copartneries more suitable to the time, had the fatal Act of 1708 not stopped its growth, and distorted the future of banking in England.

The entire episode—the temporary purpose of the law, gradually and conveniently lost sight of by the legislature,—is only one of many instances of similar, though fortunately less disastrous, interference with temporary troubles.

Mr Somers's description of cotemporary law in Scotland is interesting:—"Banking in Scotland was happy in its exemption from the impecuniosity of Governments, and in its freedom from the weakening effects of the monopoly, and exclusive privilege by which Governments, deeply indebted to their bankers, have pretended to give compensation, in public rights, for liabilities which they were unable or unwilling to discharge."

In the reasons for the English legislation, the chief consideration which strikes a modern reader is, as in Scotland, the extreme value set upon the power to issue bank notes. From the custom of the goldsmiths, the issue of bankers or goldsmiths' notes had come to be looked upon as "banking," and the possibility of carrying on the profession without an issue of such writs was not discovered for many years. Indeed, notwithstanding the daily evidence given after 1780 to the Bank of England, by the London private bankers, the great Bank does not seem to have realised the possibility of a non-issuing company of any importance beginning banking, until the establishment of the London and Westminster Bank in 1834. Thus in England, as in Scotland, the note issue was looked upon as an essential part of a banker's business.

In view of the general importance attached to the right to issue these notes, it may seem strange that the legislature of 1708 did not foresee the danger attending the lack of reserve security for the notes of these small bankers, who were thus made the only source of a national note issue. The reason for this omission probably lies in the comparative novelty of a paper currency, the future extension of which was beyond the dreams of Parliament. The omission, nevertheless, was a serious one for provincial England. For many years Bank of England notes were little known outside of London, while on to 1760 they did not form a common currency beyond 100 miles distance from London. This was one of the reasons which led to the establishment in 1826 of the 65-mile radius round London

within which no bank of issue was allowed to compete with the Bank of England, as even up to that date notes of the Bank from lack of branches had no general circulation out of London unless in Lancashire.[1] From a theoretical point of view, the private issues were on a safer footing than those of the Bank, inasmuch as the partners of the former were liable to their last shilling of personal estate[2] for the whole debts of the firm, while the shareholders of the latter were liable only for the amount of their shares. But, as in many other cases, that which was weaker in principle had all the vast practical power which the *prestige* and credit of the nation could give; and in the panics of the coming century, when the Bank of England was in difficulties it was invariably supported by Government aid, while the unfortunate country or private bankers were left to their own resources.

At the beginning of the note issues, England suffered from the same fallacy as affected Scotland, but it required a longer and severer experience to teach the southern kingdom, that notes in a till were not money. One of the few sensible writers of 1692, in a "Brief Account" of the intended Bank of England, strongly deprecates the unlimited issue of paper upon an insufficient backing of gold, boldly asserting, "that all money or credit, not having an intrinsic value to answer the contents or denomination thereof, is false and counterfeit, and the loss must fall one where or other. All credit not founded on the universal species of gold and silver is impracticable, and can never subsist either safely or long; . . . at least till some other species of credit be found out, and chosen by the trading part of mankind over and above, or in lieu thereof."

[1] *See* Letter to the Bank of England, 13th January 1826, by the Prime Minister, Lord Liverpool.

[2] It was not until many years afterwards that the heritable property of a bankrupt could be attached in England; and even then from the want of public records, it was difficult to find out when such estate existed, or to what extent it was mortgaged.

At a later date, and subsequent to the first stoppage of the Bank, Paterson himself had indicated the dangerous example the Bank was giving to other bankers, in not retaining sufficient gold to meet its notes, which had in consequence become depreciated :—" The discredit of the coin being clipped or worn, and the discredit of the Bank's notes in consequence of the refusal of payments in good coin, on demand, are the same thing; to be safe, they must pay the amount of their notes in coin on demand, whatever it may cost them. . . . If the necessity of reforming paper money be clear, can any one doubt of the manner of it? Was it not a legal security, confirmed by a settled course of payment upon demand when due, that converted paper into money? Can anything but a return to the first settled course of ready payments restore its value?"

In its desire to extend its note issues, the Bank lost a golden opportunity for doing so, by adopting too high a denomination; none were below £20, and this, at any time too high a sum for common use, was specially so in 1696, when the state of the coinage caused the most serious distress to all ranks of life, from London to Aberdeen. The stoppage of both countries' first banks was owing primarily to the same cause—the state of the metallic currency, want of experience in both laying them equally open to attack. The Bank of England, when consenting to carry out the new coinage schemes of the Government, omitted to notice that the same notes they had given out in exchange for old worn silver, would require to be paid when sent in against them in new coin, worth one-third more than the old. The immediate result was a rush of its enemies with bank notes, to serve their double purpose of ruining the Bank and filling their own pockets;—in consequence the Bank stopped, their notes going to a discount of 20 per cent. The results of the attack by the London brokers and bankers proved that the sympathy of the common people was with the new bank; and had the directors availed themselves at once of their need and their confidence, an issue of small notes might

have got into the hands of classes wholly out of touch with those which had forced the Bank into failure.

Banking in England during the first half of the eighteenth century appears to have run in the same confined channels as in Scotland. The joint-stock mania had been temporarily discredited, both north and south of the Tweed, by the bursting of the South Sea Bubble in 1720; the only bank of any importance begun for nearly twenty years being the Royal Bank of Scotland, whose proprietors had preserved intact their talent of the Equivalent Fund until a suitable opportunity arose for laying it out to usury in 1727.

In England, where the monopoly barred the way against large joint-stock banks, a few private country bankers began business, both they and the London houses issuing notes for various sums; but, as in Scotland, it was not until after the extinction of the Jacobite hopes in 1745-46 that these bankers increased. In 1793 Mr Burke stated to the House of Commons, that when he came to London in 1750 there were not twelve country banks in the whole of England; and allowing for possible error, from want of statistics, his estimate cannot have been far wrong, as the universal alarm caused by Prince Charles's invasion must have swept away numbers of country bankers, if they had existed, for the Bank itself at the panic of 1745 had to resort to measures to sustain its credit, from which even Murdoch & Co. of Glasgow may have taken a lesson.

From the middle of the century the evil of the Bank's monopoly increased in force. Its influence hitherto had not been much felt, from various causes ruling even in Scotland where the monopoly had lapsed. From 1750 private country banks rapidly increased, receiving few serious checks, until 1772; and it was doubtless their large issues of small notes which at last forced the Bank of England to issue notes of ten pounds and fifteen pounds in 1759, although the published reason was the curious one that they desired to remove the public distress arising

from the prevailing scarcity of the metallic currency; surely a most inadequate panacea for such a malady. The country bankers in immediate touch with the distress, recognised the dire trouble in which all mercantile and trading classes were placed for lack of coinage, and issued notes for minute sums, as was done in Scotland. In Yorkshire thousands of sixpenny notes circulated from want of small change.

Before adversely criticising the large issue of notes below one pound in the course of last century, the culpable negligence of Government in failing to provide any other currency has continually to be kept in view. It would be wellnigh impossible to estimate the distress caused by a deficient metallic currency, had the very "small note" issue not supplied its place. So gross was the neglect, that in 1780 an attempt was made to place the coinage under charge of the Bank of England, as no remonstrances had any effect with Government. In 1798 one firm, Dorien & Magens, took the law into their own hands by sending bullion to the Mint, where it was coined into shillings under payment of the dues. On this becoming known, the imbecile authorities melted it down, for the reason that no coinage was lawful until a proclamation had been made. Gold coins were issued regularly from 1760, but in such small quantity as scarcely affected the prevailing scarcity. These facts may afford some evidence of the convenience of the small note issues of England, weak as their issuers may have been, and also of the acute distress after 1777, when all notes below five pound were summarily declared illegal. The British public may well set off the present philosophic distinctions of its rulers, as to all currency being a prerogative of the Crown, against the shameful neglect of the eighteenth century, and invite Sir Robert Peel's school to give finance and currency some of the same boasted freedom they gave to trade.

The Bank of England notes afforded no real currency; her smallest note was of ten pounds, only payable in London, and not then circulating freely in the provinces,

and unknown in the far west or north of the kingdom, where the canals were opening up the land to commerce. Yorkshire and Lancashire were beginning to raise their heads, with their host of weaving and spinning looms, yet they had not a single bank of such magnitude as those huge joint-stocks which now carry on their business. Writing of this period, Mr Macleod remarks, that "as England required a currency, and as it could not have a good one, it had a bad one. Multitudes of miserable shopkeepers in the country, grocers, tailors, drapers, started up like mushrooms and turned bankers, and issued their notes, inundating the country with their miserable rags."

Another writer, Mr Chalmers, quoted by Sir Henry Parnell, points out the dangers of such an irruption:—"The vast business of the country *created these banks*, and *these banks created by their facilities vast business.* They tried various projects to force a greater number of their notes into circulation than the business of the nation demanded. They destroyed, by their own imprudence, the credit of their own notes, which must ever depend on the near proportion of the demand to the supply. The whole number of country bankers in England was unknown, their *capitals* and *characters* were unknown; their imprudence only was known." In this general increase the Bank of England took part. It enlarged its issues from £6,758,000 in 1778 to £10,000,000 in 1788, an increase of over £3,000,000, in which there were no one pound notes—none less than £10. The Deposits and Bullion of the Bank at the same dates were respectively (1778) £4,715,000 and £3,128,000, and (1788) £5,528,000 and £6,899,000. Compared with the modern proportions of Deposits to Notes, it is interesting to see how even in the Bank of England, the Note issue still formed the chief banking fund, as with the banks around it and in Scotland.

Unhappily these provincial bankers of the shopkeeper class did not, or could not, imitate the Bank's prudent

increase of its bullion reserves. The panic of 1772 found many unprepared. In 1769 coin had become so scarce that gold bullion had risen to £4, 10s. per ounce and silver to 5s. 10d. per ounce; and even in 1772 the Bank of England suffered loss through the high prices of bullion. In that year the other London bankers also lost heavily, and failures occurred with them and throughout the country to the number of 525. In 1775 the Act prohibiting notes below £1 came into force without any permanent form of currency being introduced to take their place—the new issue of gold in 1774 having gone to the melting-pot for foreign export. Again, in 1777, notes below £5 were also prohibited. As might have been anticipated, it is from these dates, 1775 and 1777, that the second great outburst of token money in England took its rise. The first token period (from which Tokenhouse Yard has its name) was early in the seventeenth century, from the same insufficiency of metallic currency as caused the recrudescence in 1775. Charles II. closed the first epoch compulsorily, and the renewal of the coinage in 1816 closed the second, by which time the current coins were so worn that coiners punched discs out of sheets of slightly silverised metal, and passed them as coins with little trouble.

The monetary difficulties arising from the deficient currency combined with the rapidly advancing trade of the kingdom to enlarge the profits of the peculiar system of banking then carried on, and new banks and bankers multiplied. With the majority of these a large capital was impossible, from the limited number of the partners (never more than six), and thus in the absence of deposits —which did not then exist in English banking to any material extent—the only ready fund out of which the bank could advance money in discount of bills or otherwise—if fund it may be called—consisted of the printed notes lying in their tills, which when issued they had no sufficient means of retiring.

For this deplorable condition of the provincial banks the withering restriction of the Act of 1708 was wholly

responsible. That a privilege might be given to one company, a right was withheld from all others except those who could not use it with public safety. Amid the dynastic schemes and wars of the century, Government was not supposed to exist for the benefit of the people. They were tolerated merely as tax-payers; their convenience and their happiness neglected, and the advocates of either looked upon as traitors. That only was deemed necessary which supported the king and his ministers, and all other interests or public rights were heaved overboard in the storms of debt and war, through which the Governments were borne by the great Bank. In these years when the old Scottish banks were planting themselves north and south over Scotland, the provincial banking system of England was a broken reed. It was the time of invention—of extraordinary prosperity and advancement—canal-making, spinning, weaving, and mechanical improvement were making a new England; and the weakest part in the great advance was the condition of the banking system. All the evils arising in Scotland from the absence of restriction were reproduced in England on an enlarged scale, with this distinction, that the freedom in Scotland permitted the larger and safer banks to absorb or crush the smaller and less secure, while in England the Act of 1708 permitted none to come into existence save those which belonged to the weaker class.

In the midst of this delusive prosperity—delusive only so far as the banking system was concerned—war was declared against France in 1793, and instantly the whole fabric fell to the ground. From Newcastle to London, only a few banks stood firm. One hundred suspended payment, and nearly three hundred of the remainder were severely shaken. Of the failures, seven were in Northumberland, twelve in Yorkshire, five in Lancashire, seven in Lincoln, four in Northampton, six in Sussex, four in Somerset, and others in different counties. To meet the outstanding notes and liabilities of these hundred banks, the law of England deemed six hundred partners

sufficient. It is unlikely that these banks had six hundred partners, as in 1826 out of nine hundred private country banks only twenty-five had six, all the others having a smaller number.

As an argument in favour of one pound notes, the panic of 1793 is peculiarly valuable. Misled as to the cause of the failures in 1772, and irritated by the issues of notes below £1, the Government had, as has been seen, prohibited notes below £1 in 1775, and below £5 in 1777, so that the total absence of small notes from 1777 to 1797 is a most convincing proof that one pound notes are at least not more conducive to speculation, panic, and failure than other forms of paper credit. The "runs" of 1793 and 1797 were, in England, as that of 1793 was in Scotland, chiefly by depositors, although many note-holders doubtless "ran" with the others. Yet to these facts Lord Liverpool in 1826 refused any recognition, and ascribed to one pound notes all the mischief achieved by larger forms of credit.

From 1793 to 1797 the extreme scarcity of a good currency, whether of coin or paper, became annually more serious. The London private banks had given up their note issues, while those of the country bankers, who had not recovered from the blow of the former year, were much reduced. The dislike to a paper currency which was then driven into the English nation, began to shew itself in an increased partiality for a gold currency, which they have not yet lost. Unhappily no one at that time seems to have touched the cause of the evil; for while country bankers were blamed and their notes banned, and the Bank of England was accused of various inequities, no voice was raised against the vicious laws which, deep down and out of sight, turned the whole ship whithersoever they listed. At no period of her history had England so urgently needed a good paper currency, based upon specie; for all paper money was then a risky security, from the continued dread of invasion. Plunged into her struggle with the French republic, England was using up her gold

currency with alarming rapidity. It had been raised when the country notes fell, but as the Bank of England could not replace the whole amount, demands were made on them by merchants for guineas, of which a stock was held. Along with this mercantile drain for internal use there came the war drain for foreign requirements. The Bank itself now began to enjoy the dubious pleasure of being the only bank worthy of the name; the privileges which had hitherto given it an unrivalled power began now to let it measure its responsibility. Instead of being supported by other institutions as substantial as itself, it found its movements hampered, and its very existence endangered, by the despairing clutch of country bankers, London merchants, and an impoverished Government, who all clung to it as to the one strong man in a sinking vessel. In 1794 the Bank endeavoured to meet the public necessity, and attract gold to itself from the public circulation by issuing £5 notes, which it did for the first time, and in face of an adverse exchange.

The drafts drawn abroad in connection with the war were no longer balanced by London bills on foreign houses, and the exchanges fell below the bullion points as the supply of gold became smaller wherewith to retire them. The drain of gold went steadily on, and as Napoleon, in his Italian victories, swept the enemies of France before him, the country bankers, gloomily looking to impending dissolution, hoarded every ounce of gold they could get, a measure which increased the demand from the Bank, until in December 1796 the bullion in its safes sank to £2,508,000.

The state of affairs led a number of bankers and merchants to pass the following resolution at a meeting held in the London Tavern :—" 1st, That it is the opinion of this meeting, that there has existed for a considerable time past, and does exist at present, an alarming scarcity of money in the city of London; 2d, That this scarcity proceeds chiefly, if not entirely, from an increase in the commerce of the country, and from the great diminution

of mercantile discounts which the Bank of England has thought proper to introduce in the conduct of the establishment during the last three months." Here, again, is evidence of the effects and danger of the law of 1708. If Scotland in its comparative poverty provided business for four or five large banks, and a number of lesser houses, it was manifestly impossible for the one institution in London, harassed by constant Government demands, to answer the need of such a commerce as that of England. The position was aggravated by the retiral of the London bankers from note-issuing. These gentlemen had stopped their circulation of notes at the time they were most required; and now, looking to the great Bank which the law had placed over them, they met together to complain because it could not grant the accommodation they needed.

Meantime the dread of invasion arose to panic, and the national mind was so unhinged by alarm, that the strongest species of banking need not have been blamed for succumbing to the demands made on it. Public confidence, always in a precarious state as to banking in England, disappeared, many of the banks closing their doors from mere dread of a "run," before there was any immediate call for their doing so. It is unnecessary to detail the further events which compelled the Bank of England, for the second time in its history, to stop payment. The balance-sheet published in March 1797 shews the notes outstanding to have been £8,640,000 (in the February of 1796, £10,909,694; and in February 1795, £13,539,000).

In the enquiry made by the House of Commons immediately after the suspension, the united testimony of Bank of England directors, country bankers, London merchants, and others, proved that one bank, however large, was inadequate to the wants of the country, whether as grantors of accommodation, or issuers of currency, metallic or paper; that even before the war this had been the case, but that since the renewed oppressive demands

of Pitt, the Bank had been unable to meet the claims of its two classes of customers—those of commerce on the one hand, and of an impoverished Government on the other. The Bank directors protested that their hands were tied by the huge advances already given to Government; had these been repaid, accommodation could have been given to the public, but not otherwise. The merchants and private bankers as strongly maintained, what few denied, that it was owing to the Bank's excessive contraction of its note issue that public credit was shaken, and a general demand was raised for guineas. This assertion should bear some examination. Public returns shew that when the Bank—the only safe banking institution—began to issue £5 notes, they were so taken advantage of, that the circulation went up from ten millions in August 1794 to thirteen millions in February 1795, shewing that not only an increased circulation was needed (no matter whence it came, so long as it was safe), but that notes of a smaller denomination had been required. Yet, much as a safe £5 note was esteemed, it was practically useless for the purchase of food and other articles for individuals or families, and the paying of wages to artificers. Instead of continuing to meet this demand, the Bank was compelled to cut down its issues with severity, to provide for the demands of the Government, until, in February 1797, that is, in two years only, the Bank's circulation had shrunk from thirteen millions to eight millions, a decrease of 39 per cent. Serious as this must have been to the merchants and others, to whose evidence reference has been made, the area primarily affected was small, being confined chiefly to the area around London; and from the large denomination of the notes, only a small proportion of the inhabitants could be possessed of them—but that proportion was largely made up of London bankers, many of whom acted as agents for the country banks, and through them the secondary effects of the restricted circulation were felt. If bank notes were not to be got by the London firms, they in turn would be compelled to restrict any

advances they, as agents, might be asked to give to their country employers. In this way inconvenience was spread over the country. The provincial bankers, discovering the difficulty of their London agents to meet their drafts, of course restricted their issues in turn, lest they should be returned against them in such quantity as would necessitate the granting of bills on London in payment. Throughout the provinces an intense distress was manifested—growing all the more acute, as the people realised their powerlessness to help themselves. Silver was debased, and was nearly as unreliable as in 1696; gold could only be got with difficulty; and between the sovereign and the £5 note was "a great gulf fixed," which the Government declined to bridge. How the lower and middle classes endured the evil so long is a mystery; but it was fortunate that the Bank was compelled to stop before the misery reached greater dimensions, as Pitt began to see the necessity for alleviating the distress which his war policy had done so much to cause.

His remedy was "The Restriction Act." Bank of England notes were declared to be legal tender, and the Bank was authorised to refuse payment in gold except in a few special cases. But while the fountain of gold was thus sealed up, no provision was made for security of the country bankers, who were liable to meet their notes in gold, on pain of legal "distress," unless they were paid within three days after demand. The greatest benefit, however, was yet to come. The Act of 1797, c. 28 and 32, permitted the issue of notes below £5, by the Bank and country bankers respectively. In this national emergency, the one pound note carried the country through its difficulties. The demand for gold stopped when these notes were issued, and on the exchanges turning in favour, specie came pouring into the country. The London merchants were, however, still unsatisfied. They met again in the London Tavern, and passed a resolution that it was essential that the Bank should increase its discounts and accommodation, that a larger currency

might be obtained for circulation amongst the public. This resolution was passed in face of the facts that the Bank's circulation had never been higher than in their own time, and that it had been doubled within twelve years. But this increased circulation had not all reached the public, as much of it was locked up for till-money by those London and country banks who had timidly given up their own issues.

The Government was primarily at fault for permitting the system, but the Bank itself is not without blame. When the country lost confidence in its private bankers, for whose existence the monopoly was mainly responsible, the same law of 1708 prevented establishment of joint-stock banks, such as those of Scotland, whose branches could have filled the vacuum. Left without a provincial currency, England's Bank gave no help to the provinces whose rights it had absorbed; it would neither open branches, nor consent to such change of the law as would permit other joint-stock banks to come into existence for that purpose; and, lastly, it only got into direct touch with the working people of England when it was compelled to issue one pound notes. How it did so, and with what want of precaution, will be shortly noticed.

It is not necessary to follow the Bank's career through the mazes of the years of restriction; their action has been variously criticised, and can only be justified on the ground of national emergency. Though not strictly a state bank it was the bank of the State, and its actions at this period afford a warning as to the danger of a state bank when subservient to the will of a powerful war minister. Freed from the necessity of paying gold, the directors met the wishes of their former critics, and issued a large circulation. After some years Parliament resolved that cash payments should be further postponed; and the Bank's directors, after one assertion of their ability to meet their obligations, gave no further opposition to a system which so increased their gains.

The country bankers, though not protected by legisla-

In 1779 the Bank's circulation (all large notes) was .	£6,000,000
In February 1793, also large notes, it stood at . .	11,428,000
For the first six months of 1799 it was . . .	13,000,000
" " 1804 "	17,000,000
" " 1810 "	20,000,000

In the last-named year the Bank directors maintained the impossibility of an over-issue of their notes, a notion pronounced to be dangerous by the celebrated Bullion Committee of that year. Parliament having supported the directors in their views, a further increase at once took place in the notes, with the intention of helping commerce, and thereby raising the exchanges.

From January to July 1811, the circulation was .	£23,471,000
" " 1813, " . .	23,939,000
" " 1815, " . .	27,155,000
From July to December 1817, " . .	29,210,035

The country bankers during this time were no wiser than their betters, and appear to have had their full share in the over-issue, with this difference in the result, that upon them was placed the blame of the over-trading and speculation when subsequent committees of Parliament enquired into their varied operations. They apparently found the non-cash-payment plan to pay, for between 1800 and 1813 they increased in number from four hundred to nine hundred and twenty-two. Some houses paid

agents to travel round the fairs and markets, taking up notes of rival banks in exchange for those of the banks that employed them; they were called "money changers," and received substantial commissions for their work. One pound notes were specially easy to change in this way, and when the absurdity was made public, as usual in England, or rather in London, these notes were re-declared to be the cause of all the rise in rents and prices which afflicted the nation. It is needless to say no note exchanges existed to remove the surplus notes with automatic swiftness.

Throughout the whole period from 1797 to 1820, whatever responsibility may rest upon the large notes for their share in the speculations of the over-issue, it is certain that the country would have come to a deadlock had it not been for the one pound note as a small currency. In 1817, of the Bank of England's total circulation of £27,000,000, one pound notes, as may be seen from the following details, amounted to 28·5 per cent. of the whole; and excluding £1000 notes and bank post bills, they were 35 per cent.

CIRCULATION OF 1817.

£1 notes . . .	£7,773,710
5	3,120,130
10	3,637,670
20	1,822,340
30	667,860
50	1,824,000
100	1,406,620
200	643,390
300	611,820
500	570,400
1000	3,702,190
Bank post bills . .	1,389,260
	£27,169,390

Their conveniency as a currency, and the total absence of those fluctuations so often ascribed to them, is sufficiently proved by the returns to the House of Lords' committee of

1819. For the three previous years one pound Bank of England notes were upon an average £7,546,701, and large notes £19,837,841. The extremes were as follows :—

Small notes, highest, August 1817, .	£8,035,340
„ lowest, April 1719, .	7,168,960
Large notes, highest, July 15, 1817, .	23,507,020
„ lowest, March 15, 1819, .	17,222,310
Small notes, highest above average, .	488,639
„ lowest below average, .	377,741
Large notes, highest above average, .	3,669,179
„ lowest below average, .	2,615,531

Difference between extremes—Small, £866,380 ; Large, £6,284,710.

Thus during all the panics of 1810 and 1815, with their preceding overtrading, the fluctuations of one pound notes, on either side of their average point only reached 6 per cent. above average and 5 per cent. below it, or from the trough to the crest of the wave 11 per cent., while large notes in the same period varied a total of 31 per cent., *i.e.*, 18 per cent. above average and 13 per cent. below it.

In 1817 the Bank intimated that all one and two pound notes dated prior to January 1815 would be paid in gold; but the public only availed themselves of the offer to the extent of about one million. Mr Francis, in his history of the Bank, ascribes this to their circulating amongst the working classes, to whom they were a great boon; and points out the difference between the conduct of these classes and that of the bullion speculators holding large notes, who, when their turn came to be paid in specie, "ran" to the Bank in crowds to draw gold, in the hope of making their profit out of the transaction—proving that, however small note-holders may be accused of panic in time of panic, the operations of the large note-holders at that date were those which were most likely to create disaster.

By Act 59 Geo. III., c. 49 (1819) the resumption of cash payments was instituted, and the Bank intimated that its One Pound Notes would be gradually paid in gold. Unfortunately much of the coin then paid out was soon

exported, and the note issue of the Bank was suddenly contracted between 1817 and 1822 by the large sum of ten million pounds, seven millions of which consisted of one pound notes—without being permanently replaced by other currency. As this change was not spread over a long period, but effected in the short space of about two years, it was maintained by a strong party in Parliament to be the cause of a serious fall in prices which led to distress in 1822. There was a much more obvious reason for this distress in the sudden change in the harvests, from 1817 onwards, from famine prices to those produced by great abundance at home and immense grain imports from abroad; but the popular excitement was such that the Government were compelled to pass the Small Note Act of 1822, 3 George IV., c. 70, granting a continuance of such notes until 1833. In passing the bill, Lord Liverpool took the opportunity of highly eulogising the Scottish bank system, and expressed a wish to see a similar system in England. He offered to renew the Bank of England's charter (expiring in 1833) for other ten years, if the Bank would agree to such joint-stocks being introduced generally into England, but the Bank declined the offer.

In 1824 a highly speculative movement began to develop, having received, according to Mr J. Horsley-Palmer, the Governor of the Bank of England, its first impulse from the lowering of interest on £215,000,000 of national debt.[1] A reduction in the income from so large a fund excited a feverish anxiety for any scheme which promised a higher return of dividend. Among these, joint-stock ventures were popular above all others; while abroad the newly liberated Spanish colonies received favours which were repaid in true "Dago" fashion.

[1] Similar economy in 1888, under Mr Goschen, originated a similar movement following the same lines as in 1825, and ultimately leading to the "Baring" crisis, and to a later depreciation of securities from which the country has not yet recovered.

The foreign loans (chiefly in South and Central America) amounted to £52,000,000 in five years, to which £370,000,000 fell to be added for other joint-stock proposals. The South American ventures ended in total loss, no dividend being received from any of them after the crash. In all this the small note circulation had almost no place, the transactions being carried on by other forms of credit. As prices rose, the purchasing power of notes fell, thereby increasing the demand for currency by the people, who required the same amount of commodities, but now needed more notes to effect purchases. The Bank of England and the country banks were both compelled slightly to increase their issues, though in no proportion to the rise in prices. During the restriction period it was said to be the excessive issues of notes in combination with the war which raised prices, but in 1825 the high prices were the primary cause of any increase in notes. The bank directors were shrewd enough to see the coming danger, and contracted their own issues by refusing discounts. In a further attempt to control events they adopted the curiously irrelevant plan of asking the Government to recall the Act of 1822, and exclude small notes at once from circulation. Prices, which had risen to fabulous amounts, suddenly came toppling down.[1] Failure followed failure, until the notes of the country banks were quite discredited. London bankers came next, and the Bank itself was severely run upon. Again it fell to the despised One Pound Note to be the saviour of English credit. Messrs Gurney & Co., of Norwich, placed a pile of Bank of England small notes on their counter, and were troubled no more. The Bank of England also, which had stopped

[1]

		1824.	1825.	1826.
Cottons,	per lb.	9d.	1s. 6½d.	7¼d.
Coffee,	"	58s.	88s.	50s.
Saltpetre,	"	20s.	36s.	23s.
Silk,	"	11s. 6d.	17s.	11s.
Tobacco,	"	2½d.	9d.	3¼d.
Iron,	per ton	£6	£12	£8
Spelter,	"	£20. 10s.	£41. 15s.	£26

the issue of these notes, by mere chance found a box containing nearly £700,000; and according to Mr Harman, one of the bank directors—"They worked wonders; one box containing a quantity of one pound notes had been overlooked, and they were forthcoming at the lucky moment. As far as my judgment goes, it saved the credit of the country."

Mr Henry Ayre, in his "Financial Register," says:—"Attempts have been made to shew that the country bankers were the primary cause of these disasters, but an examination of the facts prove incontestably that this assertion has no foundation in fact." Lord Liverpool, in his violent speeches against the country bankers at this time, asserted that their issues shewed a very large increase in the three years preceding the panic, giving as his reason for believing so, that they had paid a larger sum to the stamp office for note stamps than usual! He could scarcely have taken a more delusive means of calculating their circulations. The returns of stamps of the three Scottish chartered banks at the same period bear no proportion to their circulation, such as would enable the reader to judge of variations. There is another reason for the rise in the stamp duties. Chiefly through their own neglect of good engraving, the British banks had failed to devise proper checks against the numerous forgeries of their notes. Repeatedly the banks, at great expense, were compelled by some attempted forgery to call in the notes of certain issues; and as there was no hope of the Government refunding the stamp on the back, the old notes were burned, and others stamped in their place, without the stamp office knowing anything of the matter. In this way large sums of duty went to swell the stamp revenue, having no connection with increased circulation, although no other reason seems to have occurred to Lord Liverpool. When the true amounts of the country note circulation were published to the committee of 1832 by the secretary of the Country Bankers Association (representing 122 of these banks), it was discovered that, in comparison with

their note circulation in 1818, the notes of 1822 and 1823 were 11 per cent. lower, those of 1824 were 4½ per cent. lower, and those of 1825 only 2½ per cent. higher than in the first-named year; that is, they were barely sixpence per £ higher in 1825 than in 1818. Although charged with all the blame of the disaster, these banks cannot have been so badly conducted as was supposed. Sir M. W. Ridley stated in the House of Commons in June 1828, that there were 770 country bankers in England in 1825 and 1826. Of these, 63 were compelled to stop by the "run" made on them; but 23 subsequently resumed business, paying their debts in full. Of the remainder, 31 were in 1828 arranging for full payment, "and there was a great hope that every farthing would be paid." Of the others, an average dividend of 17s. 6d. per £ had been paid. Considering that the greater proportion of these 770 banks represented single-office businesses, these facts prove that Lord Liverpool and other critics had been grossly misled in their estimate of their standing. Even the careful Mr Tooke, in his notes to his "History of Prices," candidly admits that his criticisms made in the heat of the liquidation were unsupported by facts. All these facts, however, were made public after true "Jeddart justice" had been executed upon the country banks and their £1 notes by Lord Liverpool and his supporters.

Before glancing at the remedies proposed by Lord Liverpool, it may be well to name another of the principal reasons for the aversion exhibited by the Bank of England to the one pound note.

Prior to 1797 there had been no such animus, and that they were not issued was probably due to the Bank being a Government or a bankers' bank, but not particularly a national or people's bank in the sense that the large Scottish banks are. A gold currency was always fairly plentiful in London, but the provinces, so far as the Bank was concerned, were left to look after themselves. Small notes, from their number, were both expensive and troublesome to prepare, and, as the Bank had abundant

other means of getting rid of its capital in advances to Government, there was no inducement to make a profit from these notes.

While this was the state of things up to 1797, after that year the Bank had no objections to launch out a small note currency of seven millions, for which it could not be called upon to pay coin; and accordingly a large profit was made. "Runs" were impossible; numbers would be lost and burnt, all adding to the profit; so that, had other things been equal, the one pound note might possibly have had its life spared. But unfortunately a weak spot was discovered in the Bank's armour by the criminal classes of England. No care had been taken, in preparing the notes, to make them difficult of imitation. On the contrary, they were as bald and simple as the old notes which illustrate the previous chapters of this book; the engraving was poor, and the paper did not present the beautiful appearance it now does.

In 1818 the number of executions for forgery of these notes had been so great as to excite serious discussion, and a parliamentary enquiry collected some information on the subject. It was stated on behalf of the Bank that over one hundred different projects for producing a safer note had been examined by their officials and tested in many ways, and that seventy different kinds of note paper had been experimented with, without the directors being able to come to any conclusion of a practical nature. The multitude of counsellors in this case failed in producing wisdom; and at a time when other banks were struggling not unsuccessfully to produce notes which were more difficult to imitate, the Bank of England continued to issue notes which could be forged with comparative ease.

In the same year the Society of Arts, etc., in London invited communications from the London engravers. One of these, Mr Beaumont, says:—"Forgeries of Bank of England notes are so frequent, because they are so easy of imitation. They are of inferior workmanship to common engraved shop bills. An apprentice to a writing engraver,

of two years' standing, by three or four days work, is able to copy a bank note plate so that ordinary judges cannot tell the genuine from the spurious. There are not less than ten thousand persons in this country who are able to engrave successful imitations of Bank of England notes, and nine-tenths of these are in needy, and many of them in distressed, circumstances." Similar testimony was given by all the other witnesses, although many agreed that the notes were greatly improved from what they had been in 1797, when their roughness first attracted the forger's attention. The checks proposed consisted of a finer style of engraving, the general opinion being that there should be a combination of vignette and engine-turned work in place of the written note. To these suggestions the Bank gave no practical response, allowing the forgeries to go on, and trusting to Jack Ketch to solve the difficulty.

Opposite is reproduced George Cruikshank's "Bank Restriction Note," which created intense excitement amongst the public, and corresponding annoyance to the Bank directors. The ghastly picture was suggested by a scene witnessed by the artist himself, as he passed Newgate on his way to the Royal Exchange, a row of unfortunates, among whom were two women, being executed for forgery of bank notes. The bitter irony of the sketch,—Britannia devouring her own children, Newgate Gaol window surrounded by the fatal noose in form of the pound sign — £ — and crammed with the faces of the victims ready to take the places of those on the gallows, the grim promise of the latter to perform "ad lib.," and the transports crossing the main to Botany Bay,—all reveal the wrath in the kindly heart of the great artist. His delight, when he heard that the police had to clear the crowd away from William Hone's shop in Ludgate Hill, where the notes were being sold, can only have been exceeded by the satisfaction of knowing that, he had helped to give the final blow to execution for forgery.

At the first survey the number of forgeries of one pound notes seems alarming when compared with those

of larger denominations, but an examination of the facts suffices to shew that many of the circumstances which made this crime possible have passed away. During six years prior to 1797 only one capital conviction was obtained for forgery; in the four following years there were eighty-five. In 1801 the Bank tried the remedy of an improved watermark, a recognised precaution among bankers, but not of much value among the illiterate. From 1797 on to 1817 as the distress caused by war increased, there were 810 convictions, of which over 300 resulted in execution of the criminal. The most fatal year was 1818, with thirty-two executions; although 1820 exceeded in convictions, having 352.

From 1812 to 1821 inclusive, 201,906 one pound and two pound notes were refused at the Bank as spurious; the number of large notes in the same period being 8347, the nominal value of which was £47,940. From 1797 to 1818 the total outlay of the Bank for prosecutions of forgers was £148,370. In 1821, when the Bank stopped the issue of one pound notes, the crime practically ceased, and from the coincidence an argument has been drawn unfavourable to such a currency. The argument, however, omits some important facts. Perhaps the most important was the equally sudden stoppage of convictions for coining. For nearly sixty years, through governmental neglect, the poorer classes had been continuously defrauded by clippers and coiners. Naturally the debased condition of the coinage made this easy, just as the simplicity of the notes rendered their imitation easy; but notwithstanding the new issue of coin of 1816 it was surely as possible to imitate new coins as to copy the old, and the fact that this peculiar epidemic of crime disappeared about the same time from the metallic as well as from the paper currency, proves that the burden of the mischief cannot be placed upon the one pound note *per se*. War and the Berlin decrees had dislocated trade, thrown thousands out of employment, raised prices, and entailed untold misery upon the poor; and lastly, the corn laws added famine to the general

suffering, at a time when the horrors of the factory system were at their height. Misery, discontent, and crime went hand in hand, and amongst them produced this strange outburst of crime. Even the dogs suffered; and the bitter discontent over the price of bread took shape in the well-known Scots rhyme:—

> "This is a bit of King George's breid,
> That's not to be eaten till he is deid;
> The meal's dear and the siller's scant,
> And this is the time for dogs to want."

The expense of engraving at that time was serious, as from the large number of notes required, the copper-plates rapidly wore out, and had to be renewed; but in considering the modern applicability of small notes to England this cannot be urged, as the new hard steel plate process, or electrotypy, requires only one cost of engraving, the first plate lasting an indefinite number of years, and giving much greater security to the public than the successive copper-plates, each issue under the new system being absolutely identical with its predecessors.

If one pound notes were again adopted, it would be found that advanced education amongst the lower orders would be a great security against forgery. When reading and writing were privileges of a few, the common people stood at the mercy of any clever rogue. Three centuries have passed since Earl Angus thanked

> . . . "St Bothan, son of mine,
> Save Gawain, ne'er could pen a line."

Yet in the nineteenth century some predicted the direst results from the proposal to teach reading and writing to the poor. It is remarkable that forgery is now one of the rarest crimes in Great Britain, a complete confutation of the old slander. The wider the ability to understand literary characters, the greater will be the difficulty for any but forgeries of the finest description to pass current without detection; and as such forgeries are only attainable by a few, and at serious expense, the artist would

probably earn a livelihood in a more honest way. The progress in education therefore gives good ground for belief that the same advantage could not be taken now as in 1812 or 1818, and the difficulty forgers would have in producing work so good as to defy detection would soon compel them to abandon their designs, if once begun. Lastly, telegraphic communication and the public press have practically stopped the possibilities of such crime as existed in 1818; since a forgery in any place, however remote, is published next day throughout the world, and all are put on their guard.

In a previous chapter notice has been taken of the Parliamentary Enquiry of 1826, and of the legislation following the committee's report. The ideas of Lord Liverpool, the Prime Minister, are a curious combination of truth and error, his observation of the facts affording occasional gleams of hope which are speedily quenched by his erroneous deductions and inadequate remedies. Looking around for the cause of the gigantic speculation which led to the crisis, he fixed on two, both absurdly insufficient for production of such effects—the private country bankers and their one pound notes! A comparison of the facts of this period with those following Mr Goschen's conversion of consols in 1888 shews how little connection the country banks or one pound notes could have had with either crisis. In opening his speech in Parliament, Lord Liverpool said:—"The principal source of the recent distress is to be found in the rash spirit of speculation, supported, fostered, and encouraged by the country banks;" the English system of banking is "an unsolid and delusive system." Admitting fully the truth of his last remark, his assertion that the 624 new companies—the vast majority in London—with nominal capital of £372,000,000, and the £52,000,000 of foreign loans, were floated through the support, fostering care, and encouragement of the feeble country banks, is so manifestly inconclusive that it scarcely required the refutation given to it by Mr Horsley-Palmer, the Governor of the Bank of

England. The plenty of the few previous years, the accumulation of capital after the cessation of the war, the reduction of interest on national debt, all combined to put the nation in a ferment of speculation, which would have gone on if no bankers had existed. Indeed, so strong was the mania, that it would have created bankers to carry it on, had they not already been there.

In his second contention as to the "unsolid system" of banking, his lordship was unconsciously reflecting on his predecessors in office, through whose unwise measures a more solid system had been prevented from coming into being. He admitted that for years he had held the conviction that the country in its financial affairs had outgrown the capacity of the Bank of England to meet its needs, and he condemned the exclusive privileges of the Bank. Peel supported these views, believing that the real trouble lay in the great Bank's monopoly, and that if such banks as those in Scotland had existed in England during 1793, the country would have escaped the misfortunes which then fell on it. Holding such opinions as to the root of the evil, it is disappointing that the legislation proposed was neither so relevant nor radical as might have been expected. Two good Tory statesmen may be excused the last but not the former fault. By Act 7 & 8 Geo. IV., c. 6 (1826), the issue of notes below £5 was summarily stopped; and by Act c. 46 of the same year, by a most illogical expediency they permitted the establishment, among two-thirds of the people of England, of such banks as alone could issue these smaller notes with safety. The remaining one-third of the population within a circle of sixty-five miles round London was left to the "unsolid and delusive" mercies of the private bankers. In London itself the Bank was to reign supreme amongst the London banks with no intrusive "Joint-Stock" either to rival or assist in financing the world's greatest city and the monetary centre of the United Kingdom. Thus the Act of 1708 and the Bank's monopoly still maintained their grasp on all Bedford, Berkshire, Buckingham, Essex,

Hertford, Kent, Middlesex, Surrey, and Sussex, on the greater part of Cambridge, Oxford, and Hampshire, and more than one-half of Huntingdon, Northampton, and Suffolk. Outside this sixty-five miles radius the new joint-stocks permitted were unlimited in the issue of their notes for £5 and upwards, the number of their partners, and the liability of each of the latter for the whole debts of his bank. By clause 15 of the Act c. 46, the Bank of England was authorised (to remove any doubts on the subject) to open branches in the provinces. It did so in Gloucester, Manchester, and Swansea.

It may be unwise to criticise severely the stoppage of small notes at this period; the fear of forgery was too imminent for a clear view of the subject to be taken, but so far as this measure was founded on the belief that such a currency was responsible for the speculation and crisis of 1826, the subsequent crises of 1837, 1847, and 1866 proved incontestably how unreasonable was such a belief.

Lord Liverpool (who died in 1828) did not live to witness the results of his proposals and the unfortunate effects of his exclusion from London of the joint-stock banks of issue. By his fear of the Bank of England he shut these banks out from the broadening experience of a London business, and confined them to areæ where at first they absorbed the petty traditions of the small bankers, delaying in consequence the national evolution of English banking for nearly forty years.

With some notable exceptions, many of the provincial banks created during the following twenty years began business on comparatively small bases of capital, unconsciously following the lines of their predecessors in trusting to a note issue *plus* the slowly increasing deposit fund, to produce a high dividend on their capital. The dangerous habit of rediscounting their bills and thus unduly increasing their liabilities was almost invariable, and the manner of management, subject to many local influences, indicated at first a lack of the necessary experience

to control a national system of banking. As this peculiar and (for England) new manner of banking gained its experience, it will be seen how little Sir Robert Peel had really advanced in his ideas from the position he held in 1826.

In 1826 a remarkable evidence was given of the appreciation of small notes by the English people, which also marks the inconvenience attending their abolition. In December of that year a return was given to the House of Commons of a memorial from the principal "gentry, land occupiers, merchants, manufacturers, and tradesmen" of Cumberland and Westmorland, to the Lords of the Treasury, respecting the circulation of Scotch notes in these counties. On the decision of Government for abolition of small notes becoming known, the Scottish banks at once proceeded to restrict their issues within the limits of Scotland, and notified "to their correspondents the necessity of closing all accounts on the south side of the border within a few weeks." The memorial proceeds, "that from the contiguity of this district to Scotland, and from the constant intercourse existing between the two kingdoms, a large part of our money transactions has been negotiated in Scotch paper, which has freely circulated among us nearly half a century (since 1777, when such notes were first prohibited in England).

"An Act of Parliament limited the number of partners in our English banks to six at the utmost, while the absence of any such limitation in Scotland gave a degree of strength to the issuers of notes, and of confidence to the receivers of them, which several banks established in our counties have not been able to command.

"The natural consequence has been, that Scotch notes have formed the greater part of our circulating medium, a circumstance in which we have reason to rejoice, since, in the course of the last fifty years, with the solitary exception of the Falkirk bank, we have never sustained the slightest loss from one acceptance of Scotch paper; while in the same period the failures of banks in the north of England have

been unfortunately numerous, and have occasioned the most ruinous losses to many who were little able to sustain them.

"Our local banks cannot therefore be strengthened; and our Scotch circulation is about to be withdrawn suddenly, and before the meeting of Parliament, when these difficulties might be removed. Thus a vacuum is about to be created which cannot be filled up so rapidly as the Scotch notes are withdrawn; and in this case we shall be exposed for some length of time to the appalling evils which, it is known, must result from a deficient circulation. We have the honour to enclose a copy of a representation which the urgency of the case has induced us to send to the Scotch banks."

The memorial was strongly supported by the two members of Parliament for the district, Sir Philip Musgrave and Sir James Graham of Netherby. The latter, while not desiring the permanent continuance of Scotch currency, deprecates any sudden change until they should be able to establish a sound bank of their own, "consisting of more than six partners, and subjected, as we hope, to a limited responsibility." The Treasury ordered their secretary to "acquaint Sir James Graham, that my Lords, having bestowed their most careful consideration on these representations, their Lordships do not feel that they could with propriety attempt to use any interference with the Scotch banks in the measures which they may think it necessary to adopt"—a reply which avoided one awkward question by answering another which had not been asked. Sir James Graham's proposal, that the Bank of England should establish a branch in Carlisle, was passed on to the board of directors, with a request that their "serious consideration" might be given to the subject. What was the result of this consideration is not known, but, the "Old Lady of Threadneedle Street" has not yet set foot in Cumberland.

Following upon this, and possibly to stop the continued circulation of Scottish notes in the North, where they came South so far as York, the Government introduced the bill

of 1828 to exclude such notes from England. Again Sir James Graham presented a petition from the North, urging warmly that for many years the Scotch circulation had been greatly appreciated and had caused practically no loss, though the rents of the northern counties were almost entirely paid in these notes. The convenience of the North was, however, nothing to the opinion of the South, and the bill 9 Geo. IV., c. 65 (1828), was passed by 154 to 54.

A large and regular business had been done during the restriction period in the purchase of Scotch notes by English agents and banks for circulation in the North of England. In 1804 the Workington bank purchased £2000 Dundee bank notes for this purpose, the Leith and other banks enjoying a share in the curious and improper business.

JOINT-STOCK BANKING IN ENGLAND.—Although the One Pound Note now disappears from the record of English banking, the development of the latter has a strong claim to public attention. During the last thirty years (that is, since 1880) this development has attained a magnitude unequalled in the history of British banking, eclipsing in its figures those of the Bank of England, and giving an assurance of stability and permanence which neither Lord Liverpool nor Peel in their day could have anticipated. If the One Pound Note is ever to reappear south of the Tweed, these institutions could use it with best effect. It was a curious trick of fate, therefore, which in 1826 banished "Hamlet" from the play when the scene for the first time for one hundred and thiry years was at last prepared for a successful performance.

The evolution of English banking has followed that in Scotland at a distance of about fifty years, and, considering the wasteful irritation of Government interference, it is matter for congratulation that so much has been accomplished. The greatest name on the roll of progress is that of Thomas Joplin, of Newcastle, a man whose memory should ever be honoured by the joint-stock banks of

England. He was the William Paterson of his country, spending his abilities for years in the public interest, and receiving in his lifetime neither thanks nor reward. Like Paterson, he was one of the first directors of the great Bank which his individuality brought into being, and in further resemblance of his famous prototype he left the board on finding his ideas too advanced for his co-directors' acceptance. Only after eighty years has the London and Westminster Bank adopted its originator's branch policy, and that merely at second hand, through amalgamation with the London and County Bank. Those who care to know more of this remarkable man should read the epitome of his career by Mr Maberly Phillips, in his "History of Banks in Northumberland." It is needless for the purposes of this work to do more than note his discovery in 1822 that the Bank Act of 1708, notwithstanding its obvious intention, failed through the very detail of its exclusiveness in being sufficiently comprehensive, and did not debar a joint-stock bank from opening in any part of England, provided it did not issue notes.

The discovery came in a good day. Lord Liverpool had broken up the Bank's monopoly in two-thirds of England outside the charmed circle round London, and Mr Joplin's well-timed plans led to the invasion of that sacred area itself. Thus in the same decade, by legislation for one part, and almost in defiance of it for the remainder, joint-stock banking became possible in England. Its true beginning dates from the year 1833, when the London and Westminster Bank was founded. The story of its difficulties and of the "monstrous oppression" which it and its early confrères suffered from the Government and the Bank of England, are well told in Mr H. D. M'Leod's pages, and should be consulted by all who wish to see how little modern banking owes to the Government. The Acts of 1838, 1844, 1857, and 1862, giving corporate rights and power of sueing and being sued in a corporate name, slowly removed these inequities.

The crises and panics of 1837, 1847, 1857, and 1866 have already been referred to, and are only noted now to remind the reader how these events were more periodic in the absence of one pound notes than they had been during their currency. All the phenomena of the crises before and at 1826 appear in those occurring after that date, and prove by demonstration that the services of the one pound note were of a character wholly outside those proceedings which led to speculation and disaster. It will be noted also how—regular as these crises were—the number of banking disasters steadily lessened as the century passed on, and with each decade the joint-stocks increased in strength.

For nearly forty years (1826-1865) Lord Liverpool's arbitrary measure divided English joint-stock banking into two camps, and delayed that national development which has been so marked since the latter date. In both camps the effect of environment and tradition were pronounced for many years. The great banks which sprang up in London after Lord Liverpool's death, and in defiance of his plans, followed the lines of the old single-office businesses of the private London bankers—relied chiefly on the immense business which London gave them, and having no note issues, did not, as a body venture to compete in the provinces, either outside or inside the sixty-five mile radius. The provincial banks, on the other hand, up to 1844 valued their free note issue too much to abandon it for the advantage of a London office. But they likewise, as already observed, were affected by the traditions of the earlier private bankers, whose small capitals, local ideas, and subjection to local influence, were at first all reflected in the new provincial joint-stocks. Just as the first railway carriages were built on lines resembling the old mail-coaches which they displaced, so in the banking profession, time and experience were required to eliminate the antique, and guide the joint-stock banker out of his country-banker environment into the great field of national banking, and in proportion to

the widening of the field, the basis of capital and deposits has broadened and banking disasters have diminished in number.

This separation of English banking continued unchanged up to 1844, and for nearly twenty years later, but the Act of that year had a curious and unexpected effect in ultimately unifying the two systems, though unfortunately it did so by levelling down the rights of the provincial, rather than by raising the London banks to their level. Sir Robert Peel, irritated by the speculative crisis of 1837, continued—following the short-sighted views of his leader in 1826—to regard the note issues of the country bankers as the primary element of danger, the cause of speculation and of the crisis which follows it. On calling for returns from the banks of their note circulation, he found the average to reach the modest sum of £8,600,000. The fluctuations in this sum, trifling almost as it was in relation to the business operations of England, he regarded as the whirlpool of danger. The many hundreds of millions of bills and cheques he declined to consider as factors in the question. When the amounts of the latter in the country clearings of England are compared with those of the London Clearing-House, the most ignorant on matters of currency can see how little the country notes could be concerned with speculation, and also in what direction to look for the maelstrom where speculation is most to be feared. The cheques and bills passing through the provincial clearing-houses in the towns of Birmingham, Bristol, Leeds, Leicester, Liverpool, Manchester, Newcastle, Sheffield, and Nottingham amounted in 1910 to 744 million pounds, while for the same year the figures of the London Clearing-House amounted to 14,658 millions!—figures which are better associated with the distance of some fixed star. After deducting from the latter figures possible sums arising from settlement of other British clearing-houses, there is still an abysmal remainder, where a veritable kraken of speculation may lie concealed. It has been estimated that

nearly two million pounds of bills mature in London daily, and that upwards of two hundred millions in bills are continuously current throughout the year. The vast mass of acceptances on behalf of foreign correspondents and for finance purposes have always been prime elements of danger in London crises, and it was to the circulation of such paper in London, and not to the note circulation in the provinces, that Peel more properly might have turned his attention.

Peel ultimately fixed the country circulation for England at £8,631,647, and unlike his treatment of Scotland he refused to permit the English banks to exceed that amount for any cause, expressing his desire to see a complete stop put to private issue of notes. Thus as in 1826, his predecessor, when permitting joint-stocks, took away the best instrument for their economical expansion—so Peel in 1844, with equal blindness to the future, dealt with the poor remainder of the notes in such a way that in twenty years no English bank of importance valued the right to issue notes. Slowly they discovered that a London connection and possibility of business within the sixty-five mile circle were more valuable than their restricted note issues could ever be, and one by one, led in 1861 by the National Provincial Bank of England, they abandoned their note issue, opened offices in London, and the two camps of joint-stock banks became one.

The Act of 1844 had done almost everything for English provincial banking it ought not to have done. It assumed that the trade of the country would always require the same quantity of money to move it, and that the banks could increase their circulation at will—two fallacies long since exposed. It further erroneously assumed that a metallic currency was not as liable to variations as a paper currency was. In its treatment of the note issues it made no provision for any reserve of gold. It delayed a private bank's expansion into a more substantial joint-stock. It checked two small joint-stock banks from amalgamating into one more solid. It gradually took

from the banks an economical till-money, compelled them to exact higher rates from the public, and further delayed the general development of banking by branches. Mr Gilbart, of the London and Westminster Bank, sarcastically thanks it for one good deed done by stealth. He says—"We shall have no more Bank directors publishing pamphlets to show that their efforts to regulate the exchanges have been counteracted by the imprudent issues of the joint-stock banks. Our notes will not again be classed by the authors of 'prize essays' among the causes of national distress, and philosophical writers will no longer declaim in eloquent metaphor against 'the wild democracy of rival issuers.' It is no small matter to be sheltered from the peltings of unjust accusations." It is certainly strange that in so progressive a period the ill-founded opinions of these two conservative statesmen should have had such an influence on politicians of all parties for so many years. Even Mr Gladstone almost virulently upheld Peel's doctrines during his long life, and it is only since Peel's generation has passed away that any doubt has arisen amongst politicians as to the perfection of his and Lord Liverpool's measures.

Since 1880, and in an increasing ratio since 1890, the work of acquisition, amalgamation, and absorption has proceeded among the banks of England with revolutionary speed. Private and local banking has almost ceased. Substantial provincial joint-stocks united with others in equally good circumstances to form institutions hitherto unheard of in Britain. These have invaded London and bought up numerous city businesses while other large London banks have united with other city banks, and in turn invaded the provinces with their branches; in every case development has been upon branch lines, into great national banks operating over England. Nearly 300 of such amalgamations are recorded in the *London Bankers' Almanac* for 1811, the majority having taken place since 1885. At the head of these stand sixteen powerful institutions—all national in their scope—possessing an aggregate

of 630 millions of deposits, 63 millions of capital and reserve, 4733 branches, and 163,000 partners. Truly a marvellous transformation from the year 1825; in no item more striking than in the last—for in 1825 such a number of banks would not have been permitted to have had more than ninety-six partners! Yet those ninety-six might issue bank notes to an unlimited extent; in 1911 the 163,000 may not issue a single note! The Liverpool Act permitted no bank of issue to approach London, and Peel's missed few opportunities of cancelling the right of issue on amalgamations. Preferring to nationalise their system, English bankers have been compelled to sacrifice their notes, and as choice between the two evils they were wise to drop the notes meantime, and abandon the limited forms of local banking to which both Acts seemed to condemn them. They have thereby acquired a status which with wise counsel will enable them to speak with the enemy in the gate,[1] and in time to come, seek to recover the rights which Peel took from them.

In the midst of this new "reformation" it was natural that some omissions might lead to criticism. Such errors are inevitable in every great movement, and their correction is a matter of experience, if the Government keeps its heavy hand out of the business, or confines its efforts to granting liberty rather than inventing new forms of bondage.

The most prominent omission, and one which certain sections of the financial press were unwearied in dilating upon, was again, so far as it existed, the effect of tradition. The new banks were supposed not to maintain sufficient reserves of gold, but to trust, as their predecessors had done, entirely to the Bank of England. Further, in times

[1] Of the 207 private banks and 72 joint-stock banks authorised in 1844 to issue notes in England to the extent of £8,631,647, there now remain the issues of ten private banks and eight joint-stocks, amounting in all to £695,090, used now only to the extent of one-third. There have lapsed the issues of 197 private and 64 joint-stock banks to the extent of £7,936,557.

when the Bank was trying to protect its reserve against foreign demand, by raising the discount rate, the London banks rendered the Bank's efforts ineffectual by doing business at the old rates. Time, experience, and mutual consultation brought a sense of responsibility in regard to these questions which in the future should be the more easily dealt with by the decreased number of banks—as arrangements for agreement become easier as the competitors diminish in number. The Scottish banks give an example of what may be done in such matters, which cannot be lost on those who control the great joint-stocks in England, and each year of continued amalgamation has brought the possibility of such concert in London nearer realisation.

The gold drain from the Bank of England has been aggravated since 1885 by the gradual but steady demand for its notes and for gold (1) to replace the provincial bank issues which have lapsed through amalgamation or otherwise fallen since that date, say £5,500,000, while the Bank's fixed issue against securities has only been increased by £2,700,000; (2) the same drain for gold and notes has proceeded with augmented force in recent years to supply till-money for the 4000 branches which have been opened in the same period; and (3) as 1300 branches were opened since 1876 in towns where no banks had formerly existed, the entrance of the new banks into such districts naturally caused an increased local circulation of Bank of England notes.

It is in such insidious ways that the mischief wrought by Peel's Act silently manifests itself. The banks were not permitted to continue their own notes if they came to London; their development was delayed during the period of hesitation, and when the expansive movement began they were compelled for want of a substitute to use the Bank's notes (plus some gold) for the commonplace work of till-money, thereby increasing its liabilities, *pro tanto* decreasing its power of service, and compelling it the sooner to protect its reserve by raising discount rates, to

the detriment of home trade. There are no means of ascertaining what value of the Bank's notes are so locked up, but in wealthier England it cannot be estimated at less than the till-money of Scotch notes kept by the banks in Scotland. If, therefore, each of the 4000 branches stored the Bank's notes to the extent of £2000 each (figures probably under the average), the total represents a cumulative lock-up of bank notes reaching in 1910 to £8,000,000, which were not so required twenty years ago. Of course banking facilities increase the use of cheques and drafts, correspondingly diminishing the use of notes, so that it may be assumed that the Bank's circulation has been permanently increased by £4,000,000 at least, through its use by these new branches for till-money.[1]

Mr Goschen's £1 Note Scheme of 1892. Its Cause and Effects.—From 1875 to the end of 1890 this silent absorption of the Bank's notes and of gold must have proceeded to the extent of about three millions to finance the branches opened up to the latter date, a fixed sum which helped to create the situation dealt with by Mr Goschen in his £1 note scheme of 1891-92. His two objects were to increase permanently the Bank's gold stock and give it more elasticity in periods of pressure. At that date the Bank's authorised issue against securities was £16,450,000. The average gold in the Issue Department Mr Goschen assumed to be £21,550,000. These sums, together £38,000,000, he believed represented the average note issue under the Act of 1844. He proposed to make no legislative change up to this point, save to permit the issue by the Bank of £1 notes on the same conditions as its other notes, and apparently as part of the above £38,000,000. Beyond this he proposed to authorise a further issue of £1 notes, based four-fifths on gold and one-fifth on securities, thus adding four millions of gold to the reserve for every five millions of notes issued.

[1] Since the above was written an excellent article on this subject has appeared in the *London Bankers' Magazine* for February 1911, in which the whole subject is ably discussed.

Assuming an issue of twenty-five millions beyond the thirty-eight millions, he hoped "we should have £41,500,000 of gold at the Bank instead of £21,550,000, and the increase in the fiduciary issue would be only £5,000,000"—an increase which "would be due to the introduction of £1 notes, which, if once acclimatised, would be far less likely to be presented for payment than £5 notes."

If these measures raised the gold stock to £30,000,000 only, Mr Goschen was prepared to grant certain emergency powers whereby the Issue Department of the Bank might give notes to the Banking Department against securities upon paying to the Treasury a high rate of interest. This was practically an adoption of the German method, where the interest rate for excess issue is only £5 per cent., and was suggested to stop these irregular suspensions of the Bank Act which have scandalised Sir Robert Peel's admirers, and done so much harm when they happened to British credit abroad. Mr Goschen's plan failed hopelessly in awaking enthusiasm. Apart from the old dread of forgery which was trotted out, the reasons for rejection were as various as the speakers. The immense influence of the London joint-stock banks was withheld; they had nothing to gain from what was practically a State issue of the £1 note, and even their merchant clientele had no interest in extending further the Bank's exclusive privileges. There existed also a general feeling that, exposed as the Bank already was to the concentrated international demand for gold, it was not desirable to add to its burden by poising the weight of Mr Goschen's proposals on its shoulders. The scheme as a whole was crude, and savoured more of the seventeenth than the twentieth century, shewing that even Mr Goschen, acute as he generally was, had failed to see that the mere issue of a huge volley of £1 notes was little in itself, unless the manner as well as the fact of issue was considered.

Regarding the Bank of England's position as reserve holder, subsequent events have accentuated the inversion of ideas, which expected a Bank with deposits of 45

millions to hold, without some assistance, reserves for a number of banks each possessing over 60 millions. If Mr Goschen's plan failed it was valuable in directing attention to this subject, and gradually since 1892 the "other deposits" of the Bank, which include other banks and bankers' balances, extended, until in 1909-10 they exceeded the limits of 1891-92 by sums ranging from 8 to 20 millions, while the average excess is over 10 millions. On the assets side of the Bank's account there is a corresponding increase of notes in the Banking Department backed by bullion and coin in the Issue Department. The balance-sheets of the large joint-stock banks confirm these figures, as they all now shew much larger sums in "Cash on hand and at the Bank of England" than formerly, though some lessen the statistical value of their statements by including sums "at other banks." The object in the future should be to continue the policy of these eighteen years and augment the results, specially so far as "cash on hand" is concerned.

After perusing the foregoing Resumé of English Banking, the reader may be able to give some reply to the four queries with which the chapter begins. It has been the endeavour of the writer to shew that the Act of 1708 set up conditions in which it was impossible to achieve success; that notwithstanding these conditions the One Pound Note was of material advantage during the prevailing scarcity of good coins; that the old ideas of its adaptability for speculation and overtrading were at all times exaggerated, and since the growth of the Deposit and Cheque systems, have been without basis; that during the period in which its issue was lawful it was the means of saving the country on several occasions from grave disaster and the ruin of public credit; and finally, that the only danger to which it was exposed was that of forgery, and that only during a special period, and owing to special circumstances. It has to be admitted that the fear of forgery remains in the public memory of England, notwithstanding that in Ireland and Scotland for nearly

ninety years since 1826 that danger has ceased to exist. The experience of America, Canada, Germany, and Australia all confirm this. It was stated by Mr Montague, M.P., in 1892 that the German 20 mark note had never been forged. Mr Goschen made special enquiry into this danger in 1891, and in addition to the information already given, the following extract from one of his speeches gives his opinion on the question generally. He said—

"I have given very considerable attention to this question of forgery. . . . Most of the arguments as regards forgery that have been brought against £1 notes come from the fact that in the earlier part of the century when we had £1 notes, the number of forgeries was enormous, and it has been argued from that that if we had £1 notes now, not that forgeries would be in equal proportions, but that we ought to take warning from the past. But the machinery for detection at that time was most imperfect, and the administration of the day did not try and attempt to check forgery so much by detection as by the most ferocious punishment when forgery was detected. They followed the deterrent rather than the detective system, and the consequence was that, looking to the imperfect appliances they had, to the imperfection of their detective police, and of their other arrangements, they were unable to check the very large forgeries that undoubtedly existed. I do not think the argument of those old times has much weight. There is this further reason—that at the same time when those forgeries were so rife there were also a large number of forgeries of £5 notes, and there were a large number of offences against the coinage. This is an interesting point—that the average annual number of forged notes presented to the banks in the ten years from 1812 to 1821 was 750 of £5 notes, while from 1865 to 1874 the number was only 18. Therefore the forgeries of £5 notes have been reduced to one forty-second part of what they used to be, from which I argue that the forgeries then extended not only to £1 notes, but to all notes, and that in the same way as by increased skill and administrative capacity you have reduced the £5 note forgeries to one forty-second part of what they were then, so you would be able to reduce the £1 note forgeries in the like proportion. Here is another point—that the prosecutions for forgery between 1797 and 1818 for all notes were 998, but for false tokens of silver 418, and for false coinage 2681. Therefore there were more prosecutions for false coinage in those days than there were prosecutions for forgeries of notes. I will not labour the point, *but I wish to explode that part of the argument*—it is not all the argument—which rests the objection to £1 notes on the forgeries in those old days. We have other evidence. *We have the evidence of*

Scotland and Ireland. I must not rely on that evidence. In all candour I say that they must be no guide for us, because in the case of those two countries the exchange of notes between the various banks is so frequent —taking place every ten days or more—that they have unusual and uncommon facilities for the detection of forgery. Therefore you must put Scotland and Ireland aside. They are of some weight, but not of great weight. There are other countries. I have answers to enquiries presented to me from various countries. In Australia they have £1 notes, in Canada small notes, in the United States small notes, and in fact in most of the European countries. Forgeries are not an element which has induced even the richest of those countries to forego what they considered to be the advantages of notes of small denomination. It is a matter that deserves full consideration, but, I think that the evidence which I am able to collect shews that there ought not to be that extreme alarm with respect to forgeries which should discourage us from attempting the £1 note system if in other respects it seems to offer very large advantages. But it is said these £1 notes will circulate among the most ignorant part of the population. I am not at all sure whether there are many of us in this room, except bankers themselves, who are able to detect, with all our assumed intelligence, a well-planned forgery of a £5 note. I do not think it is a question of intelligence. I know when one travels abroad—when we are in the same position of ignorance—we have lost more by false coins given to us than by forged notes; and the workman would generally get his £1 note from his employer, who would get his £1 note from the bank, and whoever might be exposed to the risk of forgery, I do not think it would be that class who receive the main part of their means from responsible persons, who again receive them from other responsible persons."

Mr Goschen's remarks call for three comments. He speaks of the principles of "deterrence" rather than "detection" having been the aim in 1818; to this should be added that of "prevention," by production of notes not easy of imitation. Nearly all note-issuing banks, with one notable exception, have recognised this, so far as the engraving of their notes is concerned. Secondly, if it be alleged, as it was in 1892, that the skill of the forger has increased, it should not be forgotten that the skill and capacity of the engraver has advanced in a higher degree, and that the danger of detection and the obstacles in the way of success have multiplied a hundred-fold since 1820. Lastly, the reference to Scotland and Ireland is invaluable,

pointing at once to the defect in his own State issue scheme and to the true remedy. Mr Goschen ascribes the immunity of these countries to forgery to the opportunities for detection provided by the note exchanges, through which the whole circulation passes once in every ten days. The chancellor's further remarks on this subject, as well as any words in the text, reply to our second query as to the circumstances which led to the abolition of £1 notes in England, and bring the reader to the third and fourth questions, whether these circumstances have altered since 1826, and what are now the probabilities of a successful issue of £1 notes.

How great has been the change in these circumstances it is almost impossible for the present generation to imagine. Up to 1826 England possessed one bank, but no banking system. The second quarter of the nineteenth century saw the birth and youthful indiscretions of a real system. The third quarter saw that system after long hesitation and the sacrifice of a valued right, overstep restrictions and begin its true development; the marvellous progress of the last quarter has only been surpassed by its continuation during the ten years of the present century. England outside of the Bank of England at last possesses a banking system second to none in power and influence, fitted to undertake all the operations which a long experience has associated with sound banking. Its next object should be to recover its power of issue, and that not merely for reasons of self-interest but for the best interests of the nation. It is needless to discuss details ere Parliament and English business men are satisfied as to principle. Such an issue naturally tends toward consolidation; it would cheapen and extend banking facilities throughout England in a way which a State issue could not accomplish. It would relieve some millions of Bank of England notes from the comparatively useless duty of till-money, and enable the Bank to reduce its liability accordingly, giving it greater elasticity and helping to steady interest rates. It would give a like elasticity to

the banks possessing it, in time of pressure or periodic demand.

The extent or limit of such an issue need scarcely cause concern, so long as its acceptance is permissive and not as legal tender. The note issue of Scotland has little more than doubled since 1844, so effective has it been by branch extension in introducing these consequent facilities of cheque system which so effectually reduce the proportionate increase of a bank note currency. A note issue in England even with £1 notes would probably follow a similar course, so that the total amount might not now much exceed double the sum of 1844 plus an allowance for £1 notes not then permitted. It would take some years to reach its maximum, owing to the preference in the south of England for sovereigns, begotten of old traditions. Further, being useful now only as a currency, the wants of the nation and not the wishes of an ambitious bank would be the measure of circulation. "So long as notes are paid in gold on demand, they cannot be either over-issued or depreciated. The public take and keep out only such notes as they require for their minor payments, and no more."[1]

The inauguration of a daily note exchange where each bank acts as a check on all its neighbours would further regulate absolutely any superfluous issue by its automatic action, and would afford to England the same "uncommon and unusual facilities for the detection of forgery" to which Mr Goschen ascribed the immunity from that crime enjoyed by Ireland and Scotland. A solitary State issue would possess no such advantage.

It is said that £1 notes will drive out the gold, and in event of war the nation will be at the enemy's mercy. With the financial experience gained during the comparatively petty war in South Africa, Britain may be certain it will not carry on a conflict with a great power without a general note issue, and the sooner she prepares for the

[1] "British Banking Statistics," Mr John Dun, General Manager of Paris Banking Co. Ltd., p. 168.

eventuality the better. The machinery is all ready; never was so ready in England's history. Such a note issue if popular, would transfer the gold from the people's pockets to the bank's tills, and make it more accessible than at present. The amount of the gold stock, vital as it may be, is a detail which the legislature could adjust in conference with the banks. It would not now require to be specially appropriated to the notes issued, as the latter under the Act of 1879 (now 1908) are practically a prime charge on the whole assets of each issuing bank, and if that fact were printed on each note, and permeated the popular mind, it would beget tranquillity in all periods of crises should they come.

In any fixation of limits, these should not run through, but should follow lines of recognised periodic movement, quarterly or annual. No provision was made for these by Peel in 1844, and his cast-iron restrictions have caused annual friction since that date. The Imperial Bank of Germany has received such liberty recently. It may now issue notes up to 27½ millions sterling. As formerly, it may at any time exceed this sum on paying interest on such excess at the rate of 5 per cent. per annum to the Government, but the practical and observant German has improved on this, by permitting an untaxed excess of £1,000,000 once in each quarter, at the usual quarterly periods when rents and wages regularly and simply enlarge the circulation. Similar provision in Britain would act like oil upon the machinery of banking, from the Bank of England downwards.

On all hands the time seems ripe for a reformation of English banking law. The superstitious respect long paid to Peel's Act is gone among experts, and is rapidly going elsewhere. In the recent edition of the *Encyclopædia Britannica*, Sir R. H. Inglis Palgrave, in the article on "Banks and Banking," regrets the effect of Peel's Act. He says: "The result was that nearly all the Provincial Banks had by 1906 lost their right of issue . . . a result by which banking in England and the industries of the

country must lose the advantage which the local issues have been to Scotland."

There would be no more need in England for land or agricultural banks than there is in Scotland, if such an issue were permitted. The great National Banks could then afford to take the small with the great, and visit the outlying agricultural towns or townlets, thus materially assisting at once the most vital and most depressed of British industries—agriculture. The note issues of such banks would be recognised from Cornwall to Cumberland, and the old difficulty of bygone days of "changing" notes of the local issues when out of their habitat would cease for ever.

The right to issue notes should be restricted to those who give evidence of being able to do so with security to the public. Consequently the publication of a sufficiently vouched and detailed balance-sheet, the possession of a substantial sum of capital, having proper proportions "paid up," adequate to present needs, and "uncalled" for the possibilities of the future, should all be *sine qua non*, and these should be supported by a sufficient number of shareholders to guarantee due payment of the uncalled liability.

STATE BANK ISSUE.—Hitherto it has been assumed that non-legal tender private issues would be the best means of launching a small note currency; but it cannot be forgotten that a State, or Bank of England, issue has been the desideratum of leading politicians. It was said of Mr Gladstone, and could be said with equal truth of nearly all his and Peel's generation, that he knew neither more nor less about the currency than he learned from Sir Robert Peel; so that as long as these opinions or prejudices were current, it was improbable that private issues of one pound notes would be permitted, no matter how useful they might be proved to be, as the whole tendency of the Treasury has been to assert the same sole right to the paper currency which it asserted over that of specie.

To one bank of issue there appear to be a number of objections, so serious as to counterbalance the possibility of greater security. It would require to be simply a State institution, existing for no other purpose than the issue of notes. To conjoin ordinary banking with it, would be to make another huge monopoly.

Banking, to be "free and unrestricted," in quite another sense than that used by Sir Robert Peel in 1844, must give the same rights and immediate command of banking necessaries to one bank as to another; but a State issue would give an advantage to those banks which, being near the source of supply, could accommodate their demands to their daily requirements; while others, more remote, would be compelled to keep a larger stock of notes on hand, paid for with gold or securities.

London banks, from their vicinity to the bullion and consols markets, would have the further advantage of making profit out of superfluous reserve uplifted from the issue office; and, conversely, the farther a bank was placed from the centre of issue, the burden would be proportionally increased—so that in the remote and thinly peopled parts of the country, where banks find it most difficult to maintain a footing unless with the assistance of their own notes, a decrease of banking accommodation and an increase in charges would be a necessary result. It would be found difficult to maintain in each district the amount of notes required for that district, and the Note Mint would probably raise the same difficulties when a request for supply reached it from some needy quarter, which the Royal Mint has repeatedly given in recent years to requests for silver and bronze coin. Their reply has been that they regret they cannot issue further supply of this or that coin because there is already an abundant supply in the country, only through sundry reasons it has got locked up in certain quarters. Banks in Scotland have repeatedly received such replies, and been requested to apply at some town or bank where the coin they wish has accumulated. It can be imagined

how inconvenient such proceedings may be at time of pressure, as compared with a supply maintained of their own notes, an inconvenience which increases with the distance from the Note Mint. It is this geographical question, as well as the vicinity to Scotland, which has always led the North of England to regard a note issue more favourably than the South.

To entrust the management of the national debt and public money to a State bank as some propose, would not be more economical than the present arrangement, and on general principles would be objectionable. Two memoranda appear in the appendix to the Bank Act Report of 1858, by Lord Monteagle and Mr Arbuthnot, which are well worthy of attention in connection with this question. The objections there urged may be classed briefly under two heads: namely, the difficulty under which a State bank would labour from having no mercantile connection, such as the Bank of England enjoys; and the liability of a State establishment to abuse, by a powerful and extravagant government, in time of war or financial pressure. For example, under existing conditions, when the dividends on the funds are being paid, the circulation of the Bank of England is but slightly increased, as the greater part of the dividend is merely transferred in the Bank's books from public deposits (kept in its function as the bank of the Government) to private deposits (in its ordinary mercantile business). If these dividends were paid by a State bank, millions would go out in notes, which would immediately come back through the mercantile banks, into which they would be paid by the stockholders, causing expense and waste of time. The experience of the United States with their Treasury accumulations has not been so happy as to induce Britain in any way to copy Western financial or banking methods. Difficulties would arise at certain periods of the year, when, with an empty exchequer, the State bank could not meet the temporary requirements of Government, as the Bank of England can now do by advancing mercantile

deposits in the discount of the Government's deficiency bills, to be repaid when taxation is collected. In such a case the State bank might be compelled to sell consols in a dull market, and as these sales would usually occur at the same season of the year, they might be taken advantage of for speculative purposes by the outside public. Nearly every successful revolution of ancient and modern times has been financed by a State issue. It is unnecessary to name any other difficulties or objections, as they are somewhat foreign to the question at issue, for even Mr Ricardo, in his scheme for a State bank, made provision for one pound notes; so that it may at once be admitted, that whatever impropriety or inconvenience might attend a State issue, there would be nothing in such an issue to prevent it including notes below £5.

"The issue of paper representative money," says Professor Jevons, "is beneficial to all parties, provided it is conducted upon a sound method of regulation." There are no axioms applicable to the entire paper currency which are not of equal force regarding small notes, so far as their safe issue in England is concerned. The select committee of 1858 practically admitted this in their report, although prejudice would not allow them to adopt Earl Gifford's proposed motion:—"That your committee have been unable to discover any difference, either in principle or in practical consequence, between the notes of a denomination of £5 and upwards and those of a lower denomination now in use in Scotland and Ireland; . . . that such a currency performs, in a perfectly satisfactory manner, all the purposes of circulation which could be performed by gold coin; and moreover, that during the runs upon the banks in Scotland and Ireland last year, it was for deposits mainly, and to a very small extent for notes, that a demand for gold took place."

After making allowance for all reasonable objections, it remains that the two greatest foes in England of the one pound note are the traditions of an evil past. The dread of forgery, and the supposed liability of the small note

holder to sudden and mysterious panic, are the two spectres which must be exorcised before progress can be made. They have been brought with strange iteration before every banking committee since 1810. The Reports of 1858 and 1875 may be searched in vain for one good reason in support of these traditions, yet they appear repeatedly, asserted with apparent sincerity by their propounders, not one of whom, however, renders a reason for the faith that he holds. It is one of the satisfactory issues of Mr Goschen's £1 note scheme of 1892, that a statesman of his authority and acumen should have been satisfied that these dangers had practically ceased to exist.

PROGRESS TOWARDS TRUE UNITY SINCE 1886.—The complexity of English banking arising from bewildering legislation, long formed a difficulty in the way of unity. Since 1886, when the first edition of this work appeared, these complexities have almost disappeared by natural evolution. With the exception of a few large city banks, private banking has ceased to be a power. Even the sixty-five mile line has disappeared from financial geography. It no longer separates two sets of banks each possessing a privilege the other does not enjoy, yet each envious of that possessed by the other. With the disappearance of the note issue the limit has no meaning: Ephraim no longer envies Judah, and Judah has ceased to vex Ephraim. Of the 279 Banks of Issue in 1844, with their eight and a half millions of circulation, there remain only eighteen small banks, whose average circulation does not exceed £190,000. English banking has been unified, and but for its triumphant modern success, might say of Peel and his currency school, "*Atque ubi solitudinem faciunt, pacem appellant*"—"They made a desert and called it peace." The earliest recorded remonstrance of a native of Scotland to the unifying ideas of the South.[1]

The future is full of promise; none could have anticipated such progress as the last thirty years have witnessed.

[1] Galgacus' speech to his troops—Tacitus' *Agricola*, cap. xxx.

It is something to have driven out the Gibeonites. The banks bred under the bondage of 1708 are wellnigh gathered to their fathers. The future task is to move Parliament and the officials of the Treasury out of their traditions; to educate generally, public opinion on a subject of which it knows almost nothing wisely. Currency questions are notoriously "caviare to the general." For this education the banks have an immense external force they did not possess in 1826. Their shareholders and customers in hundreds of thousands permeate all classes of society. Gradually the tyrannical conceits of the old school may be consigned to a museum; and if England before 1926 recalls to her service an old servant, she may end the long story of A HUNDRED YEARS' MISUNDERSTANDING.

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[1] On p. 144, c. 32, the English Act is quoted in error for c. 40, the corresponding Scotch measure; and similarly on p. 145, c. 61 should read "c. 62 and subsequent Acts."

[1] *See* footnote on p. 391.
[2] Such Acts as this explain the distress for lack of good silver currency, and the subsequent increase of tokens and false coins.

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